LAGOS MODEL UNITED NATIONS '22

BACKGROUND GUIDE

General Assembly Second Committee (GA2)

Property of Lagos Model United Nations

Background Guide: General Assembly Second Committee (GA2)

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LMUN 2022: The Seventh Session

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Letter from the USG

Dear delegates,

With great pleasure, I welcome you to the Lagos Model United Nations 2022, the 7th session. LMUN is a platform that highlights contemporary world issues. It brings together youths from different walks of life to deliberate on viable solutions to make the world a better place. The conference helps participants develop and improve their writing, research, public speaking, leadership, networking and diplomatic skills. LMUN refines and polishes the very best qualities in us, and I have no doubts that this conference will be a transformative process for all participants.

This year, the staff for the General Assembly (GA) Second Committee are **Gloria Oziohu Alonge** (Under-Secretary General), **Gamaliel Gatsby Ogidi** (Chair), **Oluwatomilade Victoria Adegunju** (Vice-Chair), **Fareedah Afolabi** (Researcher) and **Aishat Abike Mahmud** (Researcher).

Gloria is a 4th-year law student at the University of Lagos. She has served as a delegate in several MUNs, including LMUN 2019 as the delegate of Algeria in ECOSOC and MYMUN in 2020 as the delegate of Egypt in GA 6, where she was awarded the Best Delegate Award. She has also served in official capacities as a Chair for WHO in MYI-MUN 2020 and as a Researcher for the UNHCR in LMUN 2021. She believes that MUNs are essential in the sensitization of youths on global issues and the development of problem-solving skills. She is passionate about diplomatic relations, human rights and the attainment of the SDGs. **Gamaliel** is a 400 level Genetics Student of the University of Lagos, in love with Activism for Human rights alongside Diplomacy. He began his Model United Nations experience at the Lagos Model United Nations 2019 where he won the Best Position Paper and Outstanding Delegate Awards in the General Assembly 2 (ECOFIN) representing the Republic of Sudan, He also served as a researcher and Vice Chair for General Assembly 2 at the Lagos Model of United Nations 2020 and 2021 respectively. **Oluwatomilade** is a 400 Level Student of Law in the University of Lagos. She is very passionate about human rights and environmental rights. Her MUN journey started in 2019 where she served as a delegate for Italy in the ECOFIN committee of LMUN 2019. She then went on to participate in the TDSMUN 2020 where she won the commendable judge award and later in LMUN 2021 where she won the position paper and outstanding delegate awards. Oluwatomilade is a highly motivated person who loves reading, research, art, music, fashion and is quite skilled at sewing. **Fareedah** is a 300-level Law student in the University of Lagos. She began her MUN journey in 2020 where she served as a delegate at YISMUN and won the Verbal Mention award. She also participated in the CIMUN 2020 conference as a delegate. She was a delegate at LMUN'21 where she bagged an Honorable Mention award. **Aishat** is a 300-level law student at the University of Lagos. She started her MUN experience in 2020 where she participated as the delegate of Argentina in LMUN'20. She also served as a delegate of the United Arab Emirate in LMUN'21. She is a certified cyber-security and data-protection professional. She is also a member of the Chartered Institute of Arbitrators. Aishat is a highly ambitious person with great intellectual acumen. Criminal law, construction law and medical law all pique her attention. She enjoys going to movies, visiting art galleries, taking photographs, fashion, and listening to music, as well as doing animal research.

The GA 2 is one of the six main committees of the United Nations General Assembly. Its main objective is to preserve financial stability and promote sustainable development in developed and developing nations alike. Hence, it focuses on global finance and other economic matters.

The topics to be discussed by the committee are:

1. Addressing The Debt Of Developing Countries To Promote Growth And Economic Development.

2. The Impact of Cryptocurrency on the Global Financial Market.

The background guide is to serve as a stepping stone to begin research on the topics to be discussed and not as a replacement for individual research. As such, delegates are encouraged to conduct their research beyond the background guides and make use of the Further Research, Annotated bibliography and Bibliography to aid in extensive research. Also, the Delegate Prep Guide and the Rules of Procedure will acquaint you with the conference's required conduct and procedural rules. These documents can be accessed on the LMUN website- www.lmun.ng.

In preparation for the conference, each delegate is expected to submit a position paper on a date to be communicated after registration and country and committee assignment. The guidelines in the LMUN Position Paper Guide will direct delegates on this process.

To communicate any questions or concerns during your preparation for the conference, please contact me at usggeneralassembly@lmun.ng or the committee at ga2@lmun.ng.

We look forward to seeing you at the LMUN 2022 Conference!

Gloria Oziohu Alonge

USG General Assembly, LMUN 2022.

List Of Abbreviations

AML	Anti Money Laundering
AUSTRAC	Australian Transaction Reports and Analysis Centre
BSA	Bank Secrecy Act
CFT	Combating the Financing of Terrorism
CFTC	Commodity Futures Trading Commission
CSA	Canadian Securities Administrators
DESA	Department of Economic and Social Affairs
DMFAS	Debt Management and Financial Analysis System
DSM	Debt Sustainability Model
DSSI	Debt Service Suspension Initiative
EBA	European Banking Association
ECOFIN	Economic and Financial Committee
ECOSOC	Economic and Social Council
ETF	Exchange Traded Fund
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FINCEN	Financial Crimes Enforcement Network
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
GDP	Gross Domestic Profit
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IROC	Investment Regulatory Organisation of Canada
LDCs	Least Developed Countries
LLDCs	Landlocked Developing Countries
MSB	Money Services Business
ODA	Official Development Assistance

OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
SEC	Securities and Exchange Commission
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organisation

COMMITTEE OVERVIEW

Introduction

The United Nations General Assembly Second Committee, also referred to as The Economic and Financial Committee (ECOFIN) or C2, is the second of the six main general assembly committees of the United Nations established in 1945.[1] The principal objective of the committee is to preserve financial stability and promote sustainable development in developing and developed states. The committee's mandate extends to macroeconomic policy questions and issues regarding finance for development, human settlements, interdependence and globalisation, poverty eradication, agricultural development, food security and nutrition, as well as information and communications technologies for development and global partnerships.[2] In addition, it considers the specific problems countries in special situations deal with, such as the cases of the Least Developed Countries (LDCs) or the Landlocked Developing Countries (LLDCs).

The committee has worked closely with the United Nations Industrial Development Organisation (UNIDO) to pass resolutions on Industrial development cooperation bi-annually since 1994.[3] The GA 2 committee and the Economic and Social Council (ECOSOC), another of the UN's six major organs, have some similarities in that both are United Nations organs that deal with Economic matters.[4] The committee consists of all UN member-states with equal representation and resolutions which carry considerable weight in promoting solutions to international economic, social and health-related problems, higher standards of living, full employment, and economic and social progress and development conditions. The

[1] The General Assembly of The United Nations, "Economic and Financial Committee (Second Committee)", 16 September 2021.

[2] ibid.

[3] UN, Fifth United Nations Conference on the Least Developed Countries (LDC5), 17th March 2022.

[4] GA, "The GA Handbook: A Practical Guide to the United Nations General Assembly", 2017.

committee's role is contained in Article 55, Chapter IX of the United Nations Charter, and each member of the committee has one vote.

Governance, Structure and Membership

The General Assembly Second Committee follows a UN plenary structure comprising 193 Member States, two permanent non-member Observer States, Holy See and Palestine, and a number of Non-Governmental Organisations (NGOs).[5]

The General Committee, which controls the General Assembly, comprises the President of the General Assembly (PGA) and 21 Vice Presidents from different regional blocs. The General Assembly currently comprises 193 UN Member States.[6] However, observer status can also be given to intergovernmental organisations such as the African Union and states without full UN membership; the Holy See and the State of Palestine are the only two non-Member States with permanent Observer status.[7] The President of the General Assembly is voted in by a simple majority of the General Assembly at each annual session, at least three months prior to resumption of duty in the opening session of the General Assembly in June. The 21 Vice Presidents are elected on the same day as the President. If the President is unavailable, the Acting President assumes authority and has all the power and responsibilities of the President.[8] The General Committee determines the agenda to be discussed by the General Assembly. All year-round, the General Committee focuses on regional debates, consultations, and scheduled meetings through organised working groups to determine the agenda.[9]

[5] The Swiss confederation, The GA Handbook, 2018.

[6] Charter of the United Nations, 1945, Art. 9.

[7] UN DPI, Permanent Observers, 2014.

[8] ibid.

[9] The PGA Handbook: A practical guide to the United Nations General Assembly, The Swiss Confederation, 2011, p. 14.

The General Assembly is currently headed by his Excellency, Abdulla Shahid.[10] It convenes at the UN headquarters in New York annually in September to discuss and deliberate on the issues before the committee. The issue to be discussed is voted upon by a simple majority, and each Member State is entitled to one vote of equal weight. This ensures equal hearing and promotes collaboration and cooperation between member states.[11]

Mandate, Functions And Powers

According to the United Nations, the purpose of ECOFIN is to discuss issues concerning economic growth and development (including international trade, the international financial system, external debt sustainability, and commodities), development financing, sustainable development, human settlements, poverty eradication, globalisation and interdependence, operational activities for development, and information and communication technologies for development.[12] Its mandate expands to include grouping nations into categories such as Least Developed Countries (LDC) to encourage regional growth and support for all nations. This is just one of the many subgroups formed under ECOFIN to address niche issues.[13]

The Economic and Financial Affairs Council (ECOFIN) is in charge of EU policy in three areas: economic policy, taxation, and financial services regulation. It also coordinates EU positions at international meetings such as the G20, the International Monetary Fund, and the World Bank. It is also in charge of the financial aspects of international climate change negotiations.

[14]

[10] United Nations, PGA Biography, 2021.

[11] Charter of the United Nations, 1945, Art. 18.

[12] Ibid.

[13] Directorate-General for External Policies, Policy Department, "Europe's approach to implementing the sustainable development goals: good practices and the way forward", february 2019.

[14]The Council of The European Union “Economic and Financial Affairs Council configuration (Ecofin)”.

One of ECOFIN's purposes is to design frameworks and encourage policies that promote economic independence within countries, such as Venezuela, with poorly diversified economies.[15] The committee's main goal is to maintain financial stability and support sustainable development in emerging and developed countries. It also considers the specific issues faced by countries in special conditions, such as Landlocked Developing Countries. Currently, the ECOFIN agenda includes, information and communications technologies for development, macroeconomic policy questions, a follow-up to and implementation of the outcomes of the International Conferences on Financing for Development, implementation of the outcome of the United Nations Conference on Human Settlements (Habitat II) and strengthening of the United Nations Human Settlements Programme (UN-Habitat).[16] The other agendas of the ECOFIN include globalisation and interdependence, assisting groups of countries in special situations, eradication of poverty and other development issues, agricultural development, food security and nutrition, global partnerships, and the achievement of permanent sovereignty for the Palestinian people in the occupied Palestinian Territory, including East Jerusalem, and of the Arab population in the occupied Syrian Golan over their natural resources. Because it is economic-based, the committee's goals are flexible enough to accommodate new matters and remain consistently relevant.

All Member states of the ECOFIN have equal representation in the UN General Assembly. Furthermore, due to its membership in the General Assembly, ECOFIN's powers are limited to making "recommendations to States on international issues within its competence [involving] political, economic, humanitarian, social, and legal decisions."[17] In other words, it lacks the authority to impose sanctions or make binding decisions. Therefore, like the other principal committees in the UN General Assembly, ECOFIN can only craft policies and

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[15] Jose Antonio Ocampo, “Regional Financial Cooperation”, 2006.

[16] Ibid.

[17] Supra n. 12.

resolutions to publish to member states but has no legally mandated enforcement mechanisms. On the other hand, the committee's abilities are not necessarily undervalued, especially regarding economic policies. Nations and regions are frequently compelled to act simply due to the actions of other nations to ensure uniformity.[18] Accepted resolutions have far-reaching consequences that go beyond the provisions they contain. Every economy is interconnected, and ECOFIN's work exemplifies the multilateral cooperation required to grow the international economy most efficiently and sustainably. The role of ECOFIN in the General Assembly is thus critical.

Recent Sessions and Current Priorities

The 76th session of the General Assembly Second Committee was held on 16th September 2021. It was chaired by Her Excellency Vanessa Frazier, Malta's Ambassador and Permanent Representative to the United Nations. [19]

The focus was on economic growth and financial development regarding information and communications technologies, poverty eradication, food security and development of agriculture, and sustainable development, amongst others.[20] The other priority of the session was on maintaining peace and international security in relation to the sovereignty of the Palestinian people and East Jerusalem[21] as well as the Arab people over their natural resources in the occupied Syrian Golan.[22]

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[18] OECD, “Reducing The Risk Of Policy Failure: Challenges For Regulatory Compliance,” 2000.

[19] Ibid.

[20] UNCTAD, “United Nations Conference on Trade and Development”, 2017.

[21] United Nations, “The Status Of Jerusalem,” 1997.

[22] Security Council, 8950th Meeting (AM & PM), “Without Prospect of End to Occupation, Middle East Region Faces Irreversible, Dangerous Collapse, Special Coordinator Tells Security Council”, 19th January 2022.

The General Assembly Second Committee has 38 draft resolutions which include: the Scale of assessments for the apportionment of the expenses of United Nations peacekeeping operations *(A/RES/76/239)*; The Situation of human rights in the Syrian Arab Republic *(A/RES/76/228)*; Countering disinformation for the promotion and protection of human rights and fundamental freedoms *(A/RES/76/227)*; Agriculture development, food security and nutrition *(A/RES/76/222)*; Eradicating rural poverty to implement the 2030 Agenda for Sustainable Development *(A/RES/76/219)*; Science, technology and innovation for sustainable development *(A/RES/76/213)*; Preventing and combating crimes that affect the environment *(A/RES/76/185)*; and Peaceful settlement of the question of Palestine *(A/RES/76/10)*.

Annotated Bibliography

General Assembly, The GA Handbook: A Practical Guide to the United Nations General Assembly, available at: https://www.eda.admin.ch/dam/mission-new-york/en/documents/UN_GA__Final.pdf (accessed 9th of February, 2022).

This guides delegates through the general mandate of the General Assembly Committee. Delegates will be able to understand the operations and sophistication of this Committee by giving insights on the meetings, debates and positions of member states in the committee. Delegates will be delicately educated on the role, functions, powers and mandates of the Second Committee of the General Assembly in line with the United Nations.

General Assembly, 75th session, allocation of agenda and procession of the meeting to the Second Committee meeting (A/C.2/75/1), available at: http://www.un.org/ga/search/view_doc.asp?symbol=A/C.2/76/1 (accessed 11th March 2022).

This will provide delegates with information on the 75th session of the General Assembly. Particularly on the agenda items allocated to the GA 2 committee.

United Nations, General Assembly, Administrative and Budgetary (Fifth Committee) Proposed Strategic Framework for the Period, available at: https://www.un.org/en/ga/fifth/70/Prop_strat_framework_2018-2019.html (accessed 31st March 2022).

This website provides the proposed strategic framework for the General Assembly in the past year. Delegates will be guided on the roles and mannerisms to be embodied as they take part in committee proceedings.

United Nations, General Assembly, "Economic and Financial Committee (Second Committee)", available at: https://www.un.org/en/ga/second/index.shtml (accessed 27th March 2022).

This website provides information on the workings of the Economic and the Social Committee. This guides delegates through a path of understanding on committee roles, mandate, functions and proceedings.

United Nations, The United Nations Charter, available at: https://www.un.org/en/charter-united-nations/ (accessed 25th April 2022).

This file gives delegates with an in-depth understanding of the fundamental proceedings and purposes of the United Nations with the aim of achieving the Sustainable Development Goals, which is a primary aim of the General assembly.

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United Nations, Documents of the 75th Session, available at: https://www.un.org/en/ga/second/75/documentation.shtml (accessed March 14th 2022).

United Nations, Functions and Powers of the General Assembly, available at: https://www.un.org/en/ga/about/background.shtml (accessed March 9th 2022).

United Nations, General Assembly, 75th session, Agriculture development, food security and nutrition (A/75/464), available at https://undocs.org/A/75/464 (accessed March 11th 2022).

United Nations, General Assembly, 75th session, Allocation of agenda items to the Second Committee (A/C.2/75/1), available at http://www.un.org/ga/search/view_doc.asp?symbol=A/C.2/75/1 (accessed March 14th 2022).

United Nations, General Assembly, 75th session, Eradication of poverty and other development issues: industrial development cooperation (A/75/462/Add.2), available at: https://undocs.org/A/75/462/Add.2 (accessed March 16th 2022).

United Nations, General Assembly, 75th session, Follow-up to the implementation of the New Urban Agenda and strengthening of the United Nations Human Settlements Programme (UN-Habitat) (A/75/459), available at: https://undocs.org/A/75/459 (accessed March 10th 2022).

United Nations, General Assembly, 75th session, Globalisation and interdependence: (A/75/460/Add.1), available at https://undocs.org/A/75/460/Add.1 (accessed March 20th 2022).

United Nations, General Assembly, “75th session, Macroeconomic policy questions: external debt sustainability and development (A/75/455/Add.3)" available at: https://undocs.org/A/75/455/Add.3 (accessed March 16th 2022).

United Nations, "#UNGA: 73rd Session of the UN General Assembly" available at: https://www.un.int/pm/unga-73rd-session-un-general-assembly-stay-informed (accessed March 8th 2022).

Addressing The Debt Of Developing Countries To Promote Growth And Economic Development

"Debt is the slavery of the free." - Publilius Syrus.[23]

Introduction

Third-world (developing) debt, also known as developing-world debt or debt of developing countries, is a term used to refer to the external debt owed by third-world countries to developed countries and multilateral lending institutions.[24]

Developing countries have experienced the largest, fastest, and most widespread period of debt accumulation in the last 50 years, as well as significant increases in debt servicing costs. The COVID-19 crisis threatens many developing countries by increasing public expenditures on health and social protection, decreasing tax revenues, and restricting access to external financing. To avoid a global debt crisis, the United Nations Secretary-General proposed a debt freeze for all countries in need, debt relief for highly indebted developing countries, and improved the international debt architecture to make restructuring exercises more efficient and fair.[25]

The escalating magnitude of debt for the world's most indebted countries is mind-boggling. In 1970, fifteen heavily indebted nations had an external public debt of $17.923 billion, or 9.8 percent of their GDP.[26] By 1987, the same countries owed $402.171 billion, or 47.5 percent of their GDP and their interest payments increased from $2.789 billion in 1970 to $36.251 billion in 1987.[27] Also, debt service (the sum of actual principal and interest payments made in

[23] Forbes Quotes, "Thoughts On The Business Of Life."

[24] Stephen R. Hurt, Third World debt, Britannica.

[25] United Nations News, 29 March 2021.

[26] Vincent Ferraro and Melissa Rosser, "Global Debt and Third World Development," 1994.

[27] Ibid.

foreign currencies, goods, or services on external public and publicly guaranteed debt) accounted for 1.5 percent of their GNP and 12.4 percent of their goods and services exports.[28]

The phenomenon of developing debt is one that has existed for decades and would likely continue to remain in third-world countries. It has led to the following questions: what is the origin of the developing debt crisis? What causes third-world countries to accumulate international debt and what are the effects? And what efforts have international bodies made to curb it?

International And Regional Framework

A series of laws and statutes have been implemented in the international community to address the issue of debt. The *Doha Declaration on Financing for Development: Outcome Document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (A/CONF.212/L.1/Rev.1*)* was adopted by the World Trade Organisation in 2001. Members agreed to "intensify efforts to prevent debt crises by strengthening international financial mechanisms for crisis prevention and resolution, in collaboration with the private sector, and by finding solutions that are transparent and agreeable to all."[29]

It reaffirmed Monterrey Consensus debt resolution principles,[30] such as "the need to ensure that debt resolution is a joint responsibility of all debtors and creditors, both State and commercial; to recognize that debt resolution's main objectives are furthering development and restoring debt sustainability; to strengthen transparency and accountability among all

[28] Ibid.

[29] Doha Declaration on Financing for Development: Outcome Document of the Follow-up International Conference on Financing for Development to review the Implementation of the Monterrey Consensus, 2008. para. 61.

[30] Monterrey Consensus of the International Conference on Financing for Development, 2002.

parties; to promote responsible borrowing and lending practices; to improve debt sustainability."[31]

One of the movements made in 2020 to tackle the issue of unsustainable debt in countries was the agreement in November 2020,[32] which prompted the G20 to create a Common Framework for Debt Treatments. This framework known as the G20 *Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI)* aimed to deal with insolvency and long-term liquidity issues in DSSI-eligible countries by providing debt relief consistent with the debtor's ability to pay and maintain essential spending needs. The Common Framework added value by bringing the newer official creditors, most notably China, which had become the largest official creditor for many developing countries, into a process similar to that used to restructure debt owed to Paris Club members (mostly OECD). It also stated that private creditors would have to provide comparable relief on debts owed to them. Still, it was unclear how this would be accomplished.

The President of the World Bank told the G20 in October 2021 that "Progress on debt has stalled. I urge you to explicitly accelerate the implementation of the Common Framework, request transparency and reconciliation of debt, and require the participation of private creditors."[33] The Managing Director of the IMF noted that the Common Framework had "yet to deliver on its promise" and that "quick action (was) needed to build confidence in the framework."[34]

[31] Doha Declaration, para. 61.

[32] Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting, November 13, 2020.

[33] Centre for Global Development, "Fix the Common Framework for Debt Before It Is Too Late," January 18 2022.

[34] Ibid.

Role Of The International System

As the focal point for debt issues in the UN, the United Nations Conference on Trade and Development (UNCTAD) has long advocated for international rules and mechanisms to better manage sovereign debt problems along the lines commonly found at the national level. In 2015, it unanimously adopted nine principles upon which new regulatory mechanisms could be built to tackle sovereign debt crises.[35] The UN General Assembly entrusted UNCTAD with the task of sharing its expertise with the committee.[36]

The principles will form a resolution to be put to the vote at the United Nations General Assembly in its upcoming session. According to Sacha Llorenti, Committee Chair and Permanent Representative of the Plurinational State of Bolivia to the UN, it is expected to pass.[37] With 189 members, the International Bank for Reconstruction and Development (IBRD) is a world bank organization. The largest development bank in the world contributes to the purpose of the World Bank Group by providing loans, guarantees, risk management instruments, and consulting services to middle-income and creditworthy low-income nations and by coordinating responses to local and international problems. IBRD, which was founded in 1944 to help reconstruct Europe after World War II, joins forces with IDA, our fund for the world's poorest nations, to form the World Bank. They work closely together with all World Bank Group organizations as well as the public and commercial sectors in developing nations to eradicate poverty and create shared prosperity. Following the Covid19 pandemic, the International Monetary Fund created the G20 Debt Service Suspension Initiative (DSSI).[38] The DSSI means that for a limited time, bilateral official creditors will suspend debt service

[35] United Nations Conference on Trade and Development, *Trade and Development Report, 1988,* UNCTAD/TDR/8 (New York: United Nations, 1988).

[36] Vibhu Mishra, UN News, 29 March 2021.

[37] UNCTAD,"United Nation lays down clear principles in tackling sovereign debt", 29 July 2015.

[38] IMF, "The IMF's Response to COVID-19", April 8, 2021.

payments from low and lower-middle-income countries (73 low- and lower-middle-income countries) that request the suspension. It is a means of temporarily alleviating these countries' financial constraints and freeing up scarce funds that can be used to mitigate the human and economic consequences of the COVID-19 crisis.

Prior to the onset of the COVID-19 crisis, debt vulnerabilities had increased in many IDA countries, with more than half classified as either in or at high risk of debt distress. The DSSI assists in meeting immediate liquidity needs. However, it does not imply that existing debt sustainability issues in some of these countries will be resolved.[39]

The Scope And Origins Of The Developing Countries' Debt Crisis

The origins of the developing-world debt crisis can be traced to the 1973–74 oil price shock[40]. At the time, the member countries of the Organisation of Petroleum Exporting Countries (OPEC) limited oil supply, causing its price to skyrocket. This significantly impacted all oil importers, including many newly independent African countries like Nigeria, Morocco and Equatorial Guinea. OPEC members were invested in the Western commercial banking sector. Then, the banks sought new borrowers to whom they could lend the money. Banks viewed developing countries needing development assistance to mitigate the impact of rising oil prices as a sensible and safe option. As a result, during the second half of the 1970s, commercial banks accounted for a sizable portion of capital flows to the developing world. The movement of funds from OPEC member countries to commercial banks and then to developing countries has been dubbed "petrodollar recycling."[41]

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[39] World Bank, "Debt Service Suspension Initiative," March 10 2022.

[40] Yanhui Zhang, "Third World Debt", 2003.

[41] World Economic Survey, Chapter III, "The End of the Golden Age, The Debt Crisis and Development Setbacks," 2017.

The United Nations Conference on Trade and Development summed up the overall effects on the standard of living in the highly indebted countries as follows:

According to national accounts statistics[42], per capita consumption in the highly indebted countries in 1987 was no higher than it was in the late 1970s; if terms of trade losses are taken into account, there was a decline. Between 1980 and 1987, per capita investment fell precipitously by about 40%. It experienced a sharp decline between 1982 and 1983, and since then, instead of recovering, it has continued to decline. The prices of commodities (basically foodstuffs, fuels, minerals, and metals) decreased by 28 percent in 1981–1982 while interest rates on loans rose by 75 percent in real terms and 50 percent in nominal terms between 1980 and 1982.[43]

By late 1990, industrialised nations were owed more than $1.3 trillion by the world's developing countries.[44] Brazil owed $116 billion, Mexico $97 billion and Argentina $61 billion and collectively these countries were three of the biggest problem debtors.[45] Approximately half of the debt owed by developing nations is to private creditors, primarily commercial banks.

The harsh reality of poverty in emerging countries served as an early impetus for the loans. In the 1970s, economic conditions suggested that borrowing money was a reasonable course of action, particularly for emerging countries that had few options for addressing the economic plight of their citizens. Residents of wealthy, industrialised nations do not have equal access to education, health care, good nutrition, and housing. The existence of these deprivations alongside great wealth is shocking, but they pale in comparison to the magnitude of global

[42] Trade and Development Report, United Nations Conference on Trade and Development (New York: United Nations, 1988) UNCTAD/FDR/8.

[43] ibid.

[44] Kenneth Rogoff, "Third World Debts", 1991.

[45] ibid.

poverty. To reflect the exact magnitude of the problem of global poverty, hunger, homelessness, diseases, and the sufferings of the poor in developed countries must be multiplied a thousand times, if not a million times. Poverty is prevalent in the world's indebted countries. In 1987, the average per capita income in the poor countries of the South was only 6% of that in the developed countries of the North. One-fifth of Africa's population lives in poverty, with Sub-Saharan Africa bearing the heaviest burden. A child in the developing world faces four to ten times the risk of death as a child in Western Europe or North America.[46] A pregnant woman in the developing world is 50 to 100 times more likely than a woman in a wealthy, developed country to die during childbirth.[47] While the crisis of the 1980s caused considerable damage, the internal sources of debt of already vulnerable countries continue to aggravate the issue for example, the budget and finance policies of countries, their investment policies and import norms as well as their national capital flight.[48]

The Effects Of Debt Crisis In Developing Countries

The international debt crisis emerged in 1982 when Mexico announced that it would be unable to pay its foreign debt, sending shockwaves throughout the global financial community as creditors feared that other countries would follow suit. A crucial aspect of the crisis began in 1973 when members of the Organization of Petroleum Exporting Countries (OPEC) quadrupled the price of oil and invested the proceeds in commercial banks. To secure investments for their new funds, banks made loans to developing countries, frequently

[46] Vincent Ferraro and Melissa Rossen, "Global debt and Third world Development", 1994.

[47] ibid.

[48] Grzegorz Gorniewicz, "The Problem of Internal Debt of Developing Countries", 2009.

without adequately evaluating the loan requests or monitoring how the loans were being used.[49]

Debt has both social and financial consequences. According to the UN Development Program, (UNDP)heavily indebted developing countries have higher rates of infant mortality, disease, illiteracy, and malnutrition than other developing countries.[50] Six of Africa's seven heavily indebted countries pay more in debt service (interest and principal repayments) than the total amount of money required to make significant progress against malnutrition, preventable disease, illiteracy, and child mortality before the year 2000.[51] If governments prioritized human development over debt repayment, an estimated 3 million children would live past the age of five, and a million cases of malnutrition would be avoided.[52] According to the UNDP, Sub-Saharan African governments transfer four times what they receive from Northern creditors.[53] Heavy indebtedness signals to the world financial community that the country is an investment risk, that it is unwilling or unable to pay its debt.[54] As a result, impoverished countries are either cut off from international financial markets or have to pay higher interest rates on credit. According to the UNDP, interest rates in developing countries were four times higher than in rich countries in the 1980s due to poor credit ratings and the expectation of national currency depreciation.[55] Another cost of debt is the lack of infrastructure, such as roads, schools, and health care facilities, which could aid in combating poverty and creating more favourable conditions for economic growth. The time civil servants spend negotiating debt repayments is associated with a different type of cost. According to

[49] Caritas International and CIDSE, “How Did the Debt Crisis Come About? What Was Its Impact on Poor Countries?”

[50] ibid.

[51] ibid.

[52] ibid.

[53] UNDP, Human Development Report, 1997.

[54] Alex Danso, “The Causes and impact of The African debt crisis,” 1990.

[55] Caritas International and CIDSE, “How Did the Debt Crisis Come About? What Was Its Impact on Poor Countries?”

Oxfam International, over 8,000 debt negotiations for Africa have taken place since 1980. External debt has also increased the macroeconomic vulnerability of these countries.

In 2008, The Third World Network released a report that contained the activities of the UN Economic Commission for Asia and the Pacific which registered a phase of heightened instability. The IMF in July of 2008 also updated the Global Financial Stability Report (IMF GFSR) which contained reports of a weakening growth in Developing countries and a heightened risk of inflation.[56] The consequences of the debt crisis brought about in the 1980s cannot be overemphasized and decades of mishandling and inadequate policies have exacerbated the crisis and brought about consequences that spread beyond the financial sector. The decline in the quality of life in heavily affected countries as well as developed countries are explored under this sub topic.

A major effect of the debt crisis of developing countries is that it reduces their abilities to respond to shocks or problems affecting the world compared to developed countries. The 2022 Financing for Sustainable Development Report (FSDR) emphasises how a financing gap is severely limiting many developing countries capacity to respond to shocks and invest in recovery.[57] Following the global COVID-19 pandemic, developed nations were able to finance significant financial measures (amounting to 18 percent of GDP points)[58] at extremely low bank interest rates with the support of their central banks. However, developing HIPCs are compelled to to reduce their spending in fields like infrastructure and education which is contributing to longer lasting crises. As stated by Collen V. Kelapile in the annual plenary session of the ECOSOC on 25th April 2022, Developing countries face a significant barrier in the cost of servicing their debts while developed states have been able to borrow at low costs

[56] IMF, "Global Stability Report" 2008.

[57] United Nations Financing for Sustainable Development Report, 12 April 2022.

[58] Shari Spiegel and Oliver Schwank, "Bridging the great finance divide in Developing countries" June 8 2022.

to fund their pandemic recovery efforts.[59] It was projected in the plenary session that by the end of 2023 1 in 5 of the least developed nations and other low income countries will still be operating below pre-pandemic levels while experiencing slow economic recovery.[60]

A most obvious effect that is in direct consonance with the above effect is the significant hemorrhage of capital to pay off the debt. Accord to the world bank, the HIPCs usually received about 2% of their GNP in aid each year from other countries but since 1982, they have been sending up to 3% of their GNP in the other direction i.e they have been paying off debts to countries they had hitherto received help from.[61] Also according to a New York Times article published in 1989,[62] the world's indebted nations sent the developed nations a total of about $50 billion in 1988, bringing the total amount of these transactions since 1984 to a head splitting sum of $120 billion. The debt issue grew so severe that even organizations with stated goals of assisting debt ridden nations began to lose money through capital drain. In 1987, the IMF received about $8.6 billion more in loan repayments and interest charges than it lent out.[63] Another devastating consequence is that the prospects for economic growth in the developing world has been severely hampered by the debt crisis which has distorted the structure of their economic development plans [64] by stifling private investment and threatening economic growth as a result of higher long-term interest rates, higher inflation, and higher future distortionary inflation.

Another examinable effect of the debt crisis was stated by prominent American-French political scientist Susan George is the potential for political violence to increase as living

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[59] Ecosoc, Plenary Session Financing for Development Forum, 2022.

[60] Ibid

[61] World Bank, World Development Report, 1989.

[62] New York Times, 18 September, 1989.

[63] New York Times, 11 February, 1988.

[64] The World bank, World Development Report, 1992.

standards in HIPCs decline.[65] Over 3000 people were killed in the more than 20 violent demonstrations against the IMFs austerity measures that have been imposed.[66]

The Role of Domestic Policies in The Onset of The Debt Crisis to Promote Growth and Economic Development

The debt crisis in the developing countries arose as a result of global economic dislocations and mismanagement by debtor countries. It is a fact that more than forty countries that simultaneously succumbed to the crisis suggest that global factors were crucial to the onset of the crisis.[67] The importance of country-specific factors involving the role of important domestic policies highlights the fact that many countries affected by global shocks avoided a crisis.

The rise in international bank lending predated the first OPEC oil shock of late 1973, which dramatically increased the pace of developing countries' bank lending. The new savings of the Persian Gulf countries were transferred to international commercial banks, which then loaned (or "recirculated") them to developing countries. This increase in lending was not merely the product of oil-importing countries striving to sustain their real consumption levels following rising oil prices, as some have indicated. Indeed, most oil-exporting LDCs outside of the Persian Gulf (e.g., Mexico and Nigeria) borrowed heavily from international banks to the point that, by 1983, the ten leading developing country debtors were all oil exporters, despite the significant jump in real oil prices over the preceding decade.[68] The fact that external debt

[65] Susan George, "The Debt Crisis:Global Economic Disorder in the 1990s", speech given at Smith College in Northampton USA, April 10 1989.

[66] ibid.

[67] Jeffrey D. Sachs, Anthony M. Solomon, William S. Ogden, Eduardo Wiesner, R. T. McNamar, "Developing Country Debt", 1988.

[68] IMF, World Economic Outlook, February 1987, p. 37.

is highly concentrated in the public sector has had a significant impact on debtor countries' ability to adjust to the debt crisis. These countries have two fundamental problems to overcome.[69] The first and most well-known is the transfer of national income to foreign creditors (through trade surpluses). The second, and arguably more difficult, is moving money from the debtor country's private sector to the public sector so that the latter can service its debts.[70] Rather than the country lacking the wherewithal to pay foreign creditors, the government in many countries is unable or unwilling to tax the private sector sufficiently to provide accessible and inexpensive debt-servicing capacity.

After the exhilarating and extremely successful experience of 1973-79, the second, devastating phase of international borrowing occurred in 1980-82. Almost none of the main parties, including borrowers and lenders (as well as academic observers), realised fast enough that the first period's success was based entirely on the transient circumstance of lower interest rates and a significant increase in export value. The debt crisis was precipitated by an increase in interest rates and a drop in export profits. As a result, the debt-export ratio also increased. Furthermore, because the overwhelming bulk of the debt was in dollars, the rise in the dollar exchange rate was especially excruciating.

The factors that caused interest rates to rise and the dollar value of trade to fall have been widely debated. Following the second OPEC price shock, the world's leading industrial countries embraced a widely supported policy of rapid deflation, based on severely restrictive monetary policies that raised interest rates globally. No international organization at the time, including the IMF, the World Bank, and the OECD, advised that the monetary tightening's abruptness and sharpness would be problematic.[71] Foreign leaders from all over the world, on

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[69]Martin Feldstein, “International Economic Cooperation”, January 1988. p.237.

[70]Jeffrey D. Sachs, “International Policy Coordination: The Case of the Developing Country Debt Crisis”, June 1987.

[71] Report of the Executive Committee on Economic and Social Affairs of the United Nations,”Finding Solutions to the Debt Problems of Developing Countries”, 20 may 1999

the other hand, commended the anti-inflation fight's intensity of purpose. Interest rates rose sharply in the United States in 1981 and later, owing to the possibility of several years of significant budget deficits generated by the 1981 tax cuts, in addition to restrictive monetary policies. The particularly high interest rates, as is now widely recognized, resulted in a capital inflow into the United States and a strong appreciation of the dollar.[72]

The debt crisis would not have developed if global shocks had not occurred. Domestic policy mistakes, on the other hand, played a significant role in almost all countries that succumbed to an external debt crisis. This is a point which makes commercial bank lending (especially after 1979) more difficult to comprehend because the banks should have seen some of the policy disarray in these countries.[73] Some countries that were subjected to significant external shocks, such as South Korea and Thailand, were able to weather the storm and sustain international creditworthiness and growth. Other economies, such as oil exporters Mexico, Nigeria, and Venezuela, which may have profited from the external events on balance, crumbled under the weight of increasing global interest rates. However, what were the crucial differences that led to a successful adjustment in some cases but not in others? The orientation of trade policy and exchange rate policy was vital.[74] Countries with export-promoting trade policies were far more successful in surmounting the external shocks. The short-run policy responses after 1979 were vital: a quick reaction to the change in the international environment was necessary for a successful adjustment.

The developing countries face three different types of constraints to economic development: population productivity, the ability to effectively generate savings, and the ability to obtain

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[72] Report of the Executive Committee on Economic and Social Affairs of the United Nations, “Finding Solutions to the Debt Problems of Developing Countries”, 20 May 1999.

[73] Jeffery D. Sachs, “International Policy Coordination: The Case of the Developing Country Debt Crisis”, June 1987.

[74] Martin Feldstein,“International Economic Cooperation”, 1988.

external purchasing power.[75] Population policies, education policies, and employment policies should all be implemented to address these constraints. The productive structure of the economy strongly influences policy choices and implementation prospects.

Agriculture, mining, manufacturing, and construction are traditional forms of economic activity that exemplify the difficulties that many developing countries still face in designing and implementing a development strategy. The resulting pressure on plans for the development of these economic activities does not always result in the best policy mix calculated to facilitate the achievement of more general national economic goals with maximum efficiency. Furthermore, when designing a development strategy, a government must start with the current state of affairs, which takes into account the size and organization of each sector. The agricultural sector in most developing countries is relatively large in terms of employment but much smaller in terms of net contribution to total output. In comparison to other developing countries growth rates, the small manufacturing sector is expanding rapidly in terms of both employment and value-added standards.[76] In some developing countries, there is also a mining sector, which is often dominated by foreign investors, and employs few people but contributes significantly to exports.

The agricultural sector is organized differently in each country, depending on the nature of the crop, the size of the commercial component, and the country's involvement in export activities. However, in most developing countries, governments are involved in research and extension, price administration and stabilization, credit and other financing, and, to a lesser degree, physical handling of farm supplies. In most developing countries, the manufacturing sector is in private hands, but many governments actively engage in specific industries and, more generally, have broad responsibility for the provision and maintenance of the economy's infrastructure of power, water, ports, transportation, and communication.

[75] Liu Zhenmin, "Recovering better: Economic and Social Challenges and Opportunities", June 2018.

[76] OECD,"Small business, job creation and growth: Facts, obstacles and best practices",1996.

Industrialization is a major element of all economic development strategies. Most government policies are specifically designed to foster industrial development, either through direct involvement or through measures aimed at mitigating the aforementioned impediments and thus inducing manufacturing expansion that is not unfolding autonomously in the private sector in response to demand changes.

Though developing countries may tend to overly categorize industry and agriculture in development policies and to underestimate their mutual dependence, it is clear that the range of primary products and activities is extremely limited in comparison to that of secondary products and activities and that, insofar as the economic development process involves economic diversification, resources will have to move increasingly. Furthermore, the differences in how the two sectors tend to be organized have important implications for government policy formulation: influence can be brought to bear much more directly on industry, with its relatively small number of well-defined and well-documented production units, than on the frequently more amorphous agricultural sector, where problems of institution building tend to loom large.[77]

The quantity and quality of human resources have a significant impact on the trajectory of economic development in developing countries.[78] A small population has fewer opportunities to conduct labour division than a large one; it is the primary determinant of the size of the local market and, thus, the structure of domestically oriented production. A population that is uneducated and unskilled is likely to be underproductive. As a result, development strategies must consider the aforementioned population policies, education policies, and employment policies.[79]

[77] Matleena Kniivila,"Industrial Development and Economic Growth: Implications for Poverty Reduction and Income Inequality", 2004.

[78] OECD,"Policy Responses to the Economic Crisis: Investing in Innovation for Long-Term Growth", June 2009.

[79] World Economic Survey,"The Problems and Policies of Economic Development: An Appraisal of Recent Experience", 1967.

In many parts of the world, the most significant policy reforms were enacted in reaction to the debt crisis in many developing countries. This is because of the influence of three Washington, D.C.-based organizations, the United States Treasury, the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development. These policy reforms became known as the Washington Consensus, which aimed at stabilization, liberalization and privatization.[80] The reforms were regularly imposed on developing countries in consideration for debt relief and financial assistance.

The IMF, and thus the International Bank for Reconstruction and Development, were particularly influential in debt-stricken countries. As a result, African and Latin American governments were pressured to embrace Washington Consensus-style policies. This being the case, they were forced to implement extreme budget austerity measures, which resulted in a prolonged recession and a lost decade of development in those regions. Meanwhile, most Asian nations that were not under the same kind of pressure had more national policy freedom. East Asia and to a lesser extent South Asia elected to adopt a development model in which the state played a critical role, contrary to what the Washington Consensus advocated. Various developing countries' development strategies and policies contributed to a significant economic divergence in the 1980s. While all developing regions experienced relatively robust development in the 1970s, the 1980s saw significant differences. In the 1980s, South and East Asia, led by China, expanded at an annual rate of 7.2 percent, while developing countries in Latin America, Africa, and Western Asia grew at a rate of 1.5 percent, 1.7 percent, and 1.7 percent, respectively.[81] As a result, a new divide arose between East Asia and other developing countries, in addition to the existing divide between oil producers and importers.

[80] Ugo Panizza,"Domestic and External Public Debt in Developing Countries", March 2008.

[81] World Economy and Social Survey, "The End of the Golden Age, the Debt Crisis and Development Setbacks", 2017, p. 51.

A lot of economic debates on fundamental issues took place. The right measures for tackling stagflation in developing countries, managing expanding global imbalances, and international responses to debt crises were all discussed. The Washington Consensus's contractionary policies and their enforcement through IMF conditionality, were also hotly debated topics. The disparity in policy orientation across developing countries, which has resulted in discrepancies in economic performance, has sparked a heated discussion about the best development strategies. Because of the frequency and severity of financial crises, as well as the adjustment and austerity enforced by the Washington Consensus, income distribution, living standards, education, health, and environmental degradation received very little attention.[82] The economic crisis also diverted focus away from the International Development Strategies for the Second and Third United Nations Development Decades (1971-1980 and 1981-1990, respectively). The goal was to improve this record of unsatisfactory progress when the General Assembly approved the International Development Strategy for the Fourth United Nations Development Decade (1991-2000), as detailed in its annex.

The goals and objectives of the Fourth Development Decade were overshadowed by the economic challenges that developed in the aftermath of the Soviet Union's collapse, which provided fresh hope for international collaboration and momentum for international agreements. Through a succession of world summits and international conferences on children, women, and the environment in the 1990s, the United Nations continued to push the development discourse toward more people-centered and rights-based approaches.

[82] ibid.

The Enforcement of International Loan Agreements and Encouragement of International Lending

An international loan agreement is a loan or other arrangement in which a foreign creditor lends a debtor a certain amount of money and the debtor agrees to pay the contractual interest and return the money utilized at the time and in the manner specified in the agreement. In the context of an international loan agreement, an international lender cannot consider a loan to a foreign borrower without taking into account the borrowing country's foreign exchange regulations, the possible need for central bank approval before the borrower can enter into the agreement, or the borrower country's provisions on withholding tax on interest income. These are issues controlled by the borrowing country's laws and regulations. Similarly, constitutional issues and the legislation governing the status of a corporate borrower are examples of areas where only local law applies. On the other side, there are regulatory laws in the lending country that must be followed. For Example, If the lender is a U.S. bank, statutory lending limitations to foreign borrowers apply.[83]

If the parties to the transaction are from IMF member countries, a court can refuse to apply an agreement, regardless of the law chosen by the parties, if the agreement is an "exchange contract" that violates a member country's exchange control regulations and involves its currency, based on art. VIII 2(b)[84] of the IMF Articles of Agreement. The debt crisis continues to deteriorate as LDC borrowers seek additional capital to assist in paying their current debts at a time when commercial banks are growing reluctant to lend money to LDCs due to rising loan loss exposure.

[83] C. Corse and B. Nichols, "United States Government Regulations of International Lending by American Banks", International Financial Law 105, 1980.

[84] Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement, IMF Articles Of Agreement, (Reprinted. May 1982).

The risk of domestic bank failures as a result of probable defaults by LDCs on their commercial debt prompted the US Congress to enact laws to encourage good banking practices among the US multinational banks, which are the principal US lenders to LDCs. The International Lending Supervision Act of 1983 (the Act)[85] allows federal banking regulatory authorities to impose limits on domestic banks' foreign lending practices in order to promote better stability of the domestic banking system. By strengthening bank balance sheets, removing income accounting incentives for banks to engage in unhealthy lending practices, and requiring detailed reporting and disclosure of a bank's foreign loan portion of its asset portfolio, the Act aims to improve the financial position of banks with significant exposure to potential LDC default.

In the aftermath of the current financial crisis, the sheer enormity of financial rescue packages and the quick spread of liquidity crises have raised worries about the IMF's ability to mobilize emergency finance to the level required by distressed countries. In this regard, the G-7 has indicated progress toward agreement on the IMF Quota Increase and the New Arrangements to Borrow, which would give the IMF an extra $90 billion in resources.[86] Is IMF financing adequate in the event of a global liquidity crisis, notwithstanding increased IMF resources? IMF bailout programs can create a moral hazard, at least for some lenders who have not been made to shoulder the full risk of the loans they have issued. Official financial support may protect creditors and investors from the repercussions of poor decisions, but it may also sow the seeds of future crises. As a result, private creditors must be more completely involved in bearing the cost of emergency financing.

Due to these factors, a legal framework is required to allow payment suspensions as part of a cooperative and non-confrontational debt renegotiation process between debtors and creditors. There appears to be some agreement that an IMF strategy of financing into arrears

[85] 12 U.S.C.A. 3901-12 (West Supp. 1984).

[86] Bernard Fritz-Krockow Parmeshwar Ramlogan, "International Monetary Fund Handbook", January 2007.

might be the answer. Even if governments undertake an adjustment and reform plan and pursue a negotiated restructure with creditors in good faith, the IMF would continue to provide money. Private creditors would be involved in discussing the terms of a restructuring under this structure. The IMF's financial assistance can boost the debtor's negotiation position, and when paired with the adjustment program, it can indicate to unpaid creditors that striking a rapid arrangement with the debtor is in their best interests. Simultaneously, suspending payments will lessen immediate foreign exchange requirements and significantly reduce the amount of a rescue package. The IMF could also use a rapid disbursement process to offer trade credit and address the import needs of debtor countries. To avoid a "rush for escape" by claim holders, including local claimants, temporary payment suspensions may need the implementation of currency restrictions, as well as some type of security against legal actions against debtors' assets internationally.

While the IMF and the World Bank had not played an active role in designing policies to address the economic challenges of developing nations in earlier decades, they became leaders in this area in the 1980s. Indeed, the effect of the IMF and the World Bank on policies implemented by governments in Sub-Saharan Africa and Latin America at the time "can barely be exaggerated, " according to UN development economist Richard Jolly (1991).[87]

One of the IMF's responsibilities is to intervene when a country faces economic difficulties. In exchange for financial assistance, the country must agree to implement a set of policy reforms known as IMF conditionality. In the 1980s, these packages came to encompass a variety of structural conditions in policy areas such state-owned enterprise privatization, trade and financial liberalization, and economic deregulation. Because they represented the influence of three Washington, D.C.-based organizations, the United States Treasury, the

[87] International Monetary Funds Policy Paper, "The Evolution of Public Debt Vulnerabilities in Lower Income Economies", February 2020.

International Monetary Fund, and the World Bank, these policy reforms were known as the "Washington Consensus”.

Initially, the Washington Consensus advocated for measures like stabilization, liberalization, and privatization. However, it grew to encompass a larger range of policies based on a strong faith in unfettered markets and a diminished role for government. Indeed, the phrase "Washington Consensus" has come to be used interchangeably with the terms "market fundamentalism" and "neoliberalism." Unfortunately, the Washington Consensus was not only restricted in terms of its aims and the range of instruments it employed, but also in terms of its understanding of development processes. Critics claim that IMF conditionality in the 1980s caused substantial "collateral damage" by adopting a restricted macroeconomic agenda.[88] They argue that the social development policy agenda was never institutionalized within the organization[89] . Reflecting these concerns, policy reforms designed by the IMF have recently been linked to increases in poverty and inequality[90] and adverse health outcomes[91]. A strand of criticism prevalent in the early phases of IMF-designed adjustment programmes focused on the apparent blindness of the organization to issues beyond what was, at the time, a narrow macroeconomic agenda.

Because financial assistance from the IMF and the World Bank was based on the implementation of the above-mentioned policy suggestions as part of structural adjustment programs, the Washington Consensus influenced countries in debt crisis in Latin America and Africa. However, in other regions of Asia, where governments (particularly in East Asia) benefited from a more flexible national policy space, this impact was less prominent. Those

[88] Babb, "The Social Consequences of Structural Adjustment: Recent Evidence and Current Debates", 2005.

[89] Park and Vetterlein, "Owning Development: Creating Policy Norms in the IMF and World Bank", 2010.

[90] Garuda, "The Distributional Effects of IMF Programs: A Cross-Country Analysis", 2000; Oberdabernig, "Revisiting the Effects of IMF Programs on Poverty and Inequality", 2013.

[91] Kentkelenis, "Structural Adjustment and Health: A Conceptual Framework and Evidence on Pathways", 2017.

countries adopted a different strategic concern than the market-centered Washington Consensus, one in which the state was given a greater role. Significant differences in economic performance resulted from the policy divergence, and the developing world experienced a great divergence. During the 1980s, while Africa, Latin America, and Western Asia experienced considerable stagnation in per capita income, East Asian countries increased their already rapid economic development.

As the impact of the Washington Consensus and structural adjustment programs became more apparent, disputes arose about the form and extent of the policy demands to be placed on recipient governments in exchange for expanded access to balance-of-payments support. It became evident that the IMF's conditionality on developing nations was frequently detrimental and counterproductive. The fundamental reasons for developing countries' fiscal deficits included whether they were primarily driven by international issues or ineffective domestic economic policies. One’s position in this discussion impacted one's perspective on the balance between deficit financing and the domestic policy changes required to eliminate them. International financial institutions argued that domestic policies, particularly import substitution industrialization, had played a key role in creating inefficiencies and distortions in developing countries, such as overvalued exchange rates, foreign exchange shortages, and distorted domestic prices.[92]As a result, they argued that the answer was trade and market liberalization, as well as measures to restructure the economy to promote exports.

In the 1980s, other UN bodies joined the discussion on the adjustment process. However, they took significantly different positions than the IMF and the World Bank. A two-volume study by the United Nations Children's Fund (UNICEF) entitled Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth (Cornia, Jolly and Stewart, 1987) was perhaps the most influential UN publication in expressing concerns about the social impact

[92] Krueger, "Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences", 1978.

especially the impact of the structural adjustment programs led by the IMF and the World Bank on children.

Suggestions for Managing the Debt Crisis- Improving the HIPC (Heavily Indebted Poor Country) Initiative, Debt Conversion and Debt Restructuring

1. HIPC Initiative

On the eve of the current millennium, a new sense of urgency is guiding the quest for long-term solutions to developing countries' debt issues, particularly those of the HIPCs. As a worldwide organization, the United Nations comprises both debtor and creditor countries in its membership. The attainment of international co-operation in solving issues of an economic, social, cultural, or humanitarian character, as well as promoting and encouraging respect for human rights and basic freedoms for everyone,[93] is one of the UN's four core objectives. The UN system, comprising all of its component departments, agencies, programs, and funds, has a primary interest and duty for the world economy's orderly, dynamic, and balanced development.

The issue of foreign debt has attracted a lot of attention and debate over the years and it has major consequences for the enjoyment of human rights. Despite crucial and substantial steps and initiatives taken by creditors at the national and global levels, the debt 'hangover' of many developing countries, notably the heavily indebted poor countries (HIPCs), has not been resolved. The key role played by various institutions on the debt issue can be supplemented by a United Nations system that shares a common understanding of the problem and agrees on a set of coherent policy responses from a wider development perspective.[94] As a result, it can benefit both creditor and debtor countries. The nature of

[93] Article 1 of the UN Charter.

[94] Report of the Executive Committee on Economic and Social Affairs of the United Nations, "Finding Solutions to the Debt Problems of Developing Countries", 20 May 1999.

developing countries' debt problems can range from acute balance-of-payments problems that require immediate action to longer-term situations involving structural, financial, and transfer-of-resources issues that require appropriate long-term solutions. Both types of difficulties can exist in the same situation.

Illiquidity and insolvency are terms used to characterize the problems outlined above. A liquidity crisis may occur as a result of a grouping of debt obligations at one time that cannot be properly paid due to a revenue shortage for the debtor. If either temporary external funding is available or the debt is restructured in terms of the stream of debt obligations so that they better match the debtor's flow of income, the debt can be serviced in full. In the event of insolvency, however, the debtor's inability to fulfill his financial obligations in full is due to a deeper structural difficulty of producing adequate money over time to service his debt, rather than a temporary deficit of revenues. Insolvency issues cannot be solved merely by rescheduling debt. Instead, debt obligations may need to be reduced to meet the debtor's long-term ability to earn revenue. In practice, distinguishing between illiquidity and insolvency issues is difficult. This is because determining whether unable to pay is temporary or permanent is often difficult. The future is hard to foresee, and illiquidity issues can occasionally lead to insolvency if not addressed promptly.

The foreign debt issue of developing countries is still a major cause of worry today. The fundamentally embedded difficulties of the heavily indebted poor countries (HIPCs) are far from being solved, and other poor nations are also suffering growing debt burdens as a result of worsening global economic conditions. The dire circumstances in which nations impacted by conflict and natural catastrophes find themselves necessitate immediate aid, which should include major debt reduction. Since the early 1990s, the situation has deteriorated considerably. Most middle-income countries appeared to be well on their way to graduating from debt rescheduling. In contrast, HIPCs and other low-income countries may plausibly anticipate addressing their debt overhang difficulties with additional help from bilateral and multilateral creditors. Not only have the HIPCs' planned debt reduction taken longer than predicted, but the current drop in commodity prices is already impacting the export development prospects of many HIPCs and other commodity-dependent countries, both low- and middle-income.[95]

Beyond the urgent goal of decreasing developing countries' excessive debt burdens, consideration should be given to the implementation of preventative measures to avert future unsustainable public and private debt. Those policies might attempt to promote responsible lending and borrowing, for example, by strengthening the responsibility and openness of borrowing and lending operations carried out by public and private economic agents. Debtor countries' debt management capabilities should also be improved. The HIPC Initiative was established in 1996 to create a framework for multilateral debt relief. So far, debt stock reductions and debt service requirements have been modest. It's worth noting that certain HIPCs' obligations to the old Soviet Union have been drastically decreased, with the Russian Federation reducing debts by up to 90%.[96]

Debt servicing consumes budgetary and foreign exchange resources, and in the absence of any gains from the initial loan's investment, has a net negative impact on a government's capacity to support social spending programs. Government expenditure on health, education, and social services will be cut under this circumstance. Reduced expenditure on these services will have a negative societal impact. It may also obstruct the promotion and protection of human rights. Everyone is ‘entitled to realization, through national effort and international co-operation, and in accordance with the organization and resources of each state, of the economic, social and cultural rights indispensable for his dignity...’[97] . As a result,

[95] Report of the Executive Committee on Economic and Social Affairs of the United Nations, “Finding Solutions to the Debt Problems of Developing Countries”, 20 May 1999.

[96] Ibid.

[97] Universal Declaration of Human Rights, Article 22.

it's vital that debt service requirements don't divert funds away from needed investments in areas like sustainable human development and the promotion and protection of human rights, as specified by the major human rights treaties. This criterion is frequently not met in impoverished, indebted countries.

Furthermore, for debtor countries that rely on only one or a few agricultural or mineral exports, a high level of debt payment tends to intensify monoculture-based agriculture and accelerate the depletion of natural resources beyond sustainable levels. HIPCs in post-conflict situations also require debt relief to aid their economic recovery following protracted periods of war or civil upheaval. In Sub-Saharan Africa, a group of eleven HIPCs,[98] all but one of which are Least Developed Countries (LDCs), have been recognized as having outstanding post-conflict economic rehabilitation requirements. Additional measures, such as novel ways to give early assistance and lending into or providing aid under arrears, may be necessary for these countries beyond the HIPC framework. Furthermore, in light of recent developments in the global economic situation, LDCs with relatively high debt burdens, roughly six countries,[99] need to be considered for debt relief.

The HIPC program, which began in 1996, was a significant step toward comprehensively addressing the debt problems of the world's emerging countries and finding a long-term solution to their debt burden. It was always expected that the HIPC procedure would take six years to complete. As a result, it's not surprising that just three countries (Uganda, Bolivia, and Guyana) have reaped the benefits of the departure debt reduction at the halfway mark. The predetermined list of HIPCs does not necessarily contain all low-income countries with

[98] These countries are: Angola, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Liberia, Rwanda, Sierra Leone, Somalia and Sudan.

[99] Afghanistan, Bangladesh, Cambodia, Comoros, Gambia, Haiti and Malawi have been classified as severely or moderately indebted by the World Bank, but were not included in the original list of HIPCs. Malawi has recently been included as HIPC by the Bretton Woods institutions.

external debt payment issues. Specific entrance restrictions, particularly the implementation of IMF or IDA-backed programs, should be relaxed.

If the HIPC initiative's performance has to be improved, the first step would be to evaluate the list of countries that should be included in the HIPC category. For example, around a half-dozen LDCs are now unprotected.[100] Although, they would be categorized as severely or moderately indebted based on their debt indicators, they are exposed to adverse external developments. At the end of 1998, three-quarters of the HIPCs had satisfied the admission requirements; the remaining nine countries (excluding Nigeria) became theoretically eligible after the sunset provision was extended until the end of 2000.[101] This provision might likely be subject to revision. While the HIPC program should not be viewed as a permanent mechanism, it should not be ended without giving all under-developed nations with debt servicing problems an opportunity to participate. Other debtor countries, such as low-income countries who have not received Paris Club concessional rescheduling or are presumed to have departed such re-scheduling, may require HIPC support in the future.

In addition to improving HIPCs' external viability, the HIPC program should prioritize lowering budgetary pressure and making room for resource transfers to social expenditures. The satisfaction of human necessities and rights should take precedence above debt repayment. There is validity in establishing a relationship between debt relief and poverty reduction, and there has lately been a lot of interest in using debt-free resources to fund social and human development programs. However, such a relationship should not take the shape of additional conditionality enforced on debtor countries; even "benign conditionalities" in this regard

[100] The term “heavily indebted countries” is used here in the more generic sense, and does not refer specifically to the group of forty-one countries included in the list defined by the IMF and the World Bank as potential beneficiaries of their debt relief initiative.

[101] Report of the Executive Committee on Economic and Social Affairs of the United Nations, “Finding Solutions to the Debt Problems of Developing Countries”, 20 May 1999.

might hold down the HIPC process even further. Further debt relief and poverty reduction measures and efforts may potentially be left to the initiative of debtor countries themselves, so that such actions are demand-driven, aligned with national interests, and properly organized at the recipient level.

Donor governments should be urged to agree on measures that would bring debt relief to a sufficient level while also pledging to fully fund the project. Debt relief for low-income nations should not come at the price of ODA (Official Development Assistance) funds for growth programs and projects in these and other countries that rely on aid for their survival and development. The financial strength of multilateral development banks, as well as their ability to give assistance to all member nations, must be protected. Several G-7 nations have made additional ideas[102] to strengthen the HIPC project, with the goal of speeding up implementation, reducing finance limits, and loosening some of the requirements.

The HIPC project is a one-of-a-kind program that will be funded with additional financial resources, similar to how natural disasters or other crises are funded. It is important to underline that a revised HIPC effort should be viewed as a one-time event. Once their financial burden is eased, HIPCs must be allowed to start afresh, making optimal use of new assistance flows to remove the structural barriers to their growth. For a while, these countries will have to rely on new concessional foreign financing sources.

- **Debt Conversion**

In the case of HIPCs, debt conversion is unlikely to be a significant factor in reducing their debt burden. Various forms of debt conversions were developed in response to the debt crisis of the early 1980s, which gave rise to a number of methods for decreasing the debt burden of

[102] The Cologne Debt Initiative by the German Government, The British Government Mauritius Mandate, France, host government of the Paris Club made proposals for an enhanced HIPC debt relief, The Government of Canada and Japan urged the G-7 countries to expand debt forgiveness to the poorest countries and proposed a seven-point strategy to enhance the HIPC initiative.

heavily indebted countries.[103] In May 1985, Chile established the first debt conversion scheme. The program's relative success prompted several other Latin American countries to follow suit, and debt conversions boomed in the late 1980s.

To avoid "round tripping,"[104] a set of regulations and a strict monitoring system are required for a conversion scheme to be effective. It must not have inflationary consequences, which means that the local currency payout must be small (in which case only a small portion of the debt is converted). The conversion must be done for assets rather than cash (for example, debt for equity swaps). The increase in the domestic money supply must be neutralized through various schemes involving the issue of government bonds, necessitating the existence of a government bond market.

- **Debt Restructuring**

Early debt restructuring is frequently accompanied by an early recovery, according to past experience. Soon after signing the IMF deal, the Republic of Korea negotiated a restructuring of its short-term debt with its creditor banks, while Thailand gained a bank agreement to restructure its short-term debt roughly six months after the crisis. Only a year after the crisis began, Indonesia is said to be negotiating debt restructuring.[105] Debtors benefit from early restructuring since it gives them breathing room while also removing the uncertainty regarding payment commitments. In this regard, IMF arrears funding might help debtor countries negotiate an early debt restructuring agreement with creditors.

[103] The International Monetary Fund and The World Bank, Debt Relief for Poverty Reduction: The Role of the Enhanced HIPC Initiative, August 2nd, 2001.

[104] Round tripping is an operation whereby an investor purchases the debt at a discount from a creditor, receives the local currency payout from the debtor government, and instead of investing the money in a local project buys foreign currency and transfers it out of the country, reducing, thus, the debtor country's foreign exchange reserves. For example, round tripping took such proportions in Tanzania that the World Bank had to ask the Government to discontinue the debt conversion program.

[105] Report of the Executive Committee on Economic and Social Affairs of the United Nations, ”Finding Solutions to the Debt Problems of Developing Countries”, 20 May 1999.

- **Transparency and accountability**

Financial instability at the corporate and national levels can be exacerbated by a lack of transparency and accountability, complicating attempts to address crises.[106] The private sector (including national firms and banks, as well as international investment banks, hedge funds, and other institutional investors); national authorities (for dissemination of regular and timely information about foreign exchange liquidity and external debt positions, including short-term debt); and international financial institutions must all work together to improve transparency and accountability.

The international community should make more efforts to put these proposals into action. The formation of the Inter-Agency Task Force on Finance Statistics is particularly noteworthy. International organizations such as the IMF, OECD, World Bank, BIS, UN (UNCTAD), the European Central Bank, and Eurostat fall under this category. Its mission is to look for ways to enhance data collection and distribution on external debt and reserve assets.

Conclusion

Finally, the UN may build an advocacy partnership structure in collaboration with NGOs and other civil society organizations, as well as sympathetic creditor countries, in order to communicate and advocate UN positions on developing country debt crises. Debt relief should be done once and for all. An improvement in domestic public financial management, particularly debt management, is the strongest guarantee that debt will remain at sustainable levels after the completion point. The UN should help debtor countries increase their ability to adopt effective debt management policies. One lesson learnt from the debt crises of the 1980s and the recent financial crisis is that precise information about loans

[106] OECD Group, "Corporate Governance and the Financial Crisis", 29 May 2009.

acquired, even short-term private debt, is critical. Furthermore, successful debt management includes topics such as strategy development, institutional concerns, legal difficulties, and the coordination, registration, and channelings of information flows for operations and decision-making.

In light of the continuing HIPC process, it is especially important to guarantee that the debtor countries concerned to control the debt sustainability assessment and are able to engage as equal participants in the process. The ability of HIPCs to apply debt sustainability analysis methods and assess the effects of debt relief should be improved. The full exercise of civil and political rights in decision-making procedures addressing debt and other concerns can help improve governance quality. Technical help from the United Nations has already aided in the development of debt management capabilities. UNCTAD established an effective debt management framework analysis and a computer-based debt management tool, known as the Debt Management and Financial Analysis System, in the early 1980s (DMFAS). This program has since been improved and is now used in 50 countries, 19 of which are HIPCs. The DMFAS Program has recently created a link with the World Bank's Debt Sustainability Model (DSM+) for debt sustainability analysis. The UNDP has long been a partner and supporter of the DMFAS Program, and co-operation agreements with other stakeholders in the field, such as the Commonwealth Secretariat, have been developed.

Further Research

How big is the current debt problem and how is the COVID-19 pandemic affecting countries' debt burdens? The poorest countries are offered temporary debt service relief, but many of them are already in debt distress or at high risk of debt distress. Wouldn't it be better to restructure their debt? Is it time to rethink the Sovereign Debt Restructuring Mechanism? Is debt conversion a more suitable option in addressing national debts compared to debt relief? Where can countries get help if financing provided by the IMF is not enough? What economic policy actions have countries already taken to address this crisis? Shouldn't the IMF ask a country's external creditors to forgive their loans? Can't the IMF force creditors to do this? The IMF is calling for countries to implement recovery plans. Will there be any conditionality tied to this? If not, how will it be enforced?

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An article on the cause and impact of the African debt crisis. This article examines the African debt crisis. It focuses on factors leading to the accumulation of the debts and their impact on the debtor nations. The significance of the study lies in the fact that the African debt burden presents a gruesome picture of hopelessness. This is reflected by the continent's massive debt of $230 billion, equivalent to almost three times the continent's annual export earnings. This is expected to jump to $550 billion by the year 2000.

Center for Global Development, "Fix the Common Framework for Debt Before It Is Too Late" [2022] available at https://www.cgdev.org/blog/fix-common-framework-debt-it-too-late accessed on May 3rd 2022.

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IMF, Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Statistical Update" [2019] available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/08/06/Heavily-Indebted-Poor-Countries-HIPC-Initiative-and-Multilateral-Debt-Relief-Initiative-MDRI-48566 accessed on March 6th 2022.

This report reviews developments in the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative. This report reviews developments in the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). It also provides updates on debt service and poverty-reducing expenditure by beneficiary countries, as well as on the cost of debt relief, creditor participation rates, and litigation against HIPCs. Accessed March 14th,2022

IMF, "The IMF's Response to COVID-19" [2021] available at https://www.imf.org/en/About/FAQ/imf-response-to-covid-19 accessed on June 27th 2022.

The IMF provided member nations with unprecedented financial support in response to the coronavirus epidemic, focusing on protecting the most vulnerable individuals and laying the groundwork for an inclusive and sustainable recovery.

Taylor & Francis Online, "International Loan to Developing Countries as a Risk Sharing Contract" [2006] available at https://www.tandfonline.com/doi/abs/10.1080/10168738800000014?journalCode=riej20(last accessed on 27th of June, 2022.

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UN, "External Debt" available at https://www.un.org/en/development/desa/financial-crisis/debt.html accessed on March 10th 2022.

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Vincent Ferraro, Melissa Rosser "Global Debt and Third World Development" [1994] available at https://www.mtholyoke.edu/acad/intrel/globdebt.htm accessed March 10th 2022.

An article on how debt affects the development of third world countries, by using Germany's World War debt as a case study. This policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness was preached in the name of justice. But in the great events of man's history, in the unwinding of the complex fates of nations, justice is not so simple.

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THE IMPACT OF CRYPTOCURRENCY ON THE GLOBAL FINANCIAL MARKET

"*For the United Nations to deliver better on our mandate in the digital age, we need to embrace technologies like blockchain that can help accelerate the achievement of Sustainable Development Goals*" - Antonio Guterres, United Nations Secretary-General.[107]

Introduction

Money has been a part of human history for at least 5,000 years.[108] over the years, it has evolved through different stages and forms. In 600 B.C, King Alyattes of Lydia minted the first metallic money made from electrum (refined gold and silver).[109] The first paper money, on the other hand, was created in the Song Dynasty in China in about 770 BC.[110]

Civilisation has come with developments in different sectors of the world, and the financial world is not left out. Cryptocurrency, or virtual currency, was invented by an entity under the pseudonym Satoshi Nakamoto, whose identity has yet to be verified. He sought to seize control of money which lies in the hands of the elites and transfer it to the average man.[111] The name first surfaced when he posted a white paper entitled "Bitcoin: A Peer-to-Peer Electronic Cash System", a detailed guideline on digital currencies.[112] Bitcoin was the first digital currency introduced in 2008. According to Fortunly, the global cryptocurrency market is projected to grow about 13% annually till 2030.[113] One of the most significant factors of this

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[107] Robert Stevens, "Why the UN Secretary General wants to embrace blockchain," 31 December 2019.

[108] Glyn Davies, "A History of Money." Chapter 2, University of Wales Press Cardiff, 2016.

[109] Mustafa Marie, "The first currency in history: Kingdom of Lydia minted gold, silver coins" 7 March 2022.

[110] Philip Pfaff, "Paper Money in Early China." The BRC Journal of Advances in Business (2010).

[111] Rebecca Baldridge, "Why the Father of Bitcoin Is Nowhere to Be Found", 22 May 2021.

[112] Marie Huillet, "11 Years Ago Today Satoshi Nakamoto Published the Bitcoin White Paper" 31 October 2019.

[113] I. Mitic, "A Modern-Day Gold Rush: 30 Eye-Opening Cryptocurrency Statistics for 2022", 5 April 2022.

growth is the rising rate of digital investments. Many countries use crypto for investments and peer-to-peer transactions, from Bitcoin to Ethereum, Dogecoin, or Litecoin.[114]

International and Regional Frameworks

An increase in Cryptocurrency usage economically integrates the global society as it neutralises the bond between citizens and the government. It takes away the potentate ability to issue currency, which makes companies and individuals accountable. Cryptocurrency exchanges have been made legal in the United States of America. However, the USA is yet to develop a sustainable regulatory body for cryptocurrency despite its prevalence in this region. Nevertheless, it is regulated by the Bank Secrecy Act (BSA), which ensures the checking and inspection of fund flow through these digital channels. It also ensures that crypto exchanges must be registered under the Financial Crimes Enforcement Network (FINCEN). Crypto exchanges are also required to comply with the Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regulations.[115] More so, the US Securities and Exchange Commission (SEC) has clearly stated that it considers cryptocurrencies to be securities and applies securities laws comprehensively to digital wallets, businesses and exchanges that fall under cryptocurrency.[116] The Commodities Futures Trading Commission (CFTC) who described Bitcoin as a commodity and allowing cryptocurrency derivatives to trade publicly and amicably has adopted a more socially friendly, “do no harm” perspective, which ensures free and public trading, FINCEN also took its stand and encourages crypto exchanges to be line with the “Travel Rule” in accordance to guidelines published by FATF (Financial Action Task Force) in June 2019, which ensures

[114] Katharina Buchholz, “Where Cryptocurrency Is Most Heavily Used”, 2 February 2022.

[115] International Finance, "How Can Cryptocurrency Reshape the Global Economy?" March 2022.

[116] Evelyn Cheng, "The SEC just made it clearer that securities laws apply to most cryptocurrencies and exchanges trading them," 7 March 2018.

information about the originators and beneficiaries of cryptocurrency transactions and gathered and duly shared. Canada has rather taken intentional steps towards promoting cryptocurrency trades as they were the first to approve Bitcoin Exchange Traded Fund (ETF), which launched on Feb 18 and 19, 2021, on Toronto Stock Exchange. Canada classifies crypto trading and investment firms as Money Service Businesses (MSBs) and are encouraged to register with regional regulators such as Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), they are monitored by Canadian Securities Administrators (CSA) and Investment Regulatory Organisation of Canada (IIROC).[117]

In Europe, Cryptocurrency is all over most of the EU, although individual states carry out control and governance alongside the taxation. More recently, the EU 5th and 6th Anti-money Laundering Directives (5AMLD and 6AMLD) have come to clutch, tightening the KYC and CFT obligations.[118] The United Kingdom indicates that cryptocurrency is a property, not a legal tender, and should be registered imperatively with the UK Financial Conduct Authority (FCA). Even more cryptocurrency-specific requirements relating to Know Your Customer (KYC), as well as AML and CFT,[119] ensure these traders are being taxed as they carry out transactions. However, only Japan in Asia and Australia have a progressive and proactive stance on cryptocurrency as they both recognise it as legal property. Crypto trading and investment firms are allowed to operate freely in the country as long as they are duly registered under the Financial Services Agency (FSA) and Australian Transaction Reports and Analysis Centre (AUSTRAC).[120] Japan treats profits from cryptocurrency trading as “miscellaneous income”. Other Asian countries such as China, South Korea, Singapore and

[117] Fergal Smith, David Randall, “Canadian regulator clears launch of world's first bitcoin ETF: investment manager”, 12 February 2021.

[118] Compliance Insights, 6th Anti-Money Laundering Directive: EU’s 6AMLD, 1 December 2020.

[119] FCA, “FCA warns consumers of the risks of investments advertising high returns based on cryptoassets”, January 2021.

[120] Ajibola Akamo, “Japan passes stablecoin bill focused on investor protection”, 3 June 2022.

India do not view cryptocurrency as a legal tender, each having its own distinct views on cryptocurrency and having distinctive regulatory frameworks which check and balance VCs. In Africa, South Africa appears to be a front runner in the cryptocurrency sector. The Financial Sector Conduct Authority (FSCA), the regulator of the financial sector in South Africa, planned to unveil a regulatory framework covering cryptocurrency in the first half of 2022. However, this is yet to become a reality. Most countries do not have any regulations on cryptocurrency. Hence, it is currently banned and illegal in some countries such as Nigeria, Ghana, Algeria etc. It is somewhat legal in South Africa and neither legal nor illegal in countries like Kenya, Zimbabwe and Tanzania.

The Role of International Systems

Governments around the world are taking different ordeals to cryptocurrencies and digital fiat currencies. This is a vital area for international organizations and forums such as World Bank and International Monetary Fund, which hold down the global economy. Some governments, such as Malta, Singapore, and Switzerland, are active cryptocurrency hubs, attracting and developing the cryptocurrency industry in their countries.[121] Governments, such as China, India, and South Korea, have banned the use of cryptocurrencies for fear of specific activities such as internet fraud and money laundering sometimes associated with cryptocurrencies.[122] Other governments, including most European countries and the United States, seek a balance between financial innovation and risk management by regulating cryptocurrencies.[123]

The cryptocurrency success has opened opportunities for businesses and trade, but is it here to stay, can it stand the test of time? The central banks of most countries are concerned

[121] Marco Gross, Christoph Siebenbrunner, “Money Creation in Fiat and Digital Currency Systems”, 20 December 2019.

[122] Jeffery Mazer, “Demystifying Cryptocurrencies, Blockchain, and ICOs”, 2018.

[123] European Banking System, “For a few cryptos more: the Wild West of crypto finance”, 25 April 2022.

about the threat posed by making cryptocurrency as legal tender and its effects on their economies and the global economy as a whole. Irrespective, the market is growing at an alarming rate as people enter it in large numbers with the main aim to make incredible profit. The International Monetary Fund (IMF) and the World Bank, too, have often raised questions about the viability of this opaque market. In the newest Global Financial Stability Report,[124] the IMF has called for tougher and stricter regulations to stabilise the rapid growth in cryptocurrencies, which can cause global financial instability, as cryptocurrency serves as an enabiling tool for; scamming consumers, money laundering and terrorism funding. The report highlighted the hacking risks the crypto trade poses due to its digital nature, it also highlighted the lack of exposure and oversight over the industry, saying some currencies were likely created just to rip people off and for speculation or fraud.[125]

The World Bank, meanwhile, has made clear its preference for central bank digital currencies (CBDCs) instead of privately held cryptocurrencies. It has said that CBDCs can facilitate cross-border transactions and vastly improve the international payments systems. When El Salvador granted Bitcoin the status of legal tender, the international lender rejected its request for assistance with the rollout because of "environmental and transparency shortcomings''.[126]

Many international organizations and forums are examining the shortcomings of cryptocurrencies. The Opposition to cryptocurrency can be assumed to be the official position of the International Monetary Fund (IMF), Hence, anti-crypto restrictions are most likely to be a common condition of its loans to economies in crisis. Argentina, most recently agreed to

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[124] IMF, Global Financial Report, April 2022.

[125] The Guardian, "IMF warns of global risks from unregulated cryptocurrency boom," October 2021.

[126] Anthonia Nouri Farzan, The Washington Post, "World Bank declines to help El Salvador adopt bitcoin, citing environmental and transparency concerns," 17 June 2021.

“discourage” the use of cryptocurrency as a condition of a $45 billion loan from the IMF.[127] This announcement comes less than a year after the IMF denied El Salvador a loan after the state announced its plan to use bitcoin as legal tender and this made the IMF ended negotiations with state. Argentina has experienced a severe set of economic crises for years, high inflation rates, after proper examination causing them to sur come to the conditions of the IMF. A range of issues, including the importance of digital currencies for improving the international payments systems are fundamental in societal development but due to a good number of shortcomings the IMF has chosen to stand against.[128] However, with this growth comes many challenges, especially regarding regulation and its impact on the global financial market.

The Impact of Cryptocurrency Legalisation on the Global Market

Cryptocurrency is a digital payment platform that enables one to send and receive money via digital wallets on a peer-to-peer system. This works because coins are “mined” or created by using a computer to solve complex mathematical problems. Transactions are recorded on a distributed ledger technology called “blockchain” that ensures that no coin is used more than once.[129] This security process of encoding and decoding data to prevent duplication and double-spending is known as cryptography.[130] Users trade, store and purchase digital coins from apps and platforms. The crypto market is volatile and challenging to predict; the value rises and crashes depending on several unpredictable factors. Usually, people buy

[127] Marek Dabrowski and Lukasz Janikowski, "Virtual currencies and central banks monetary policy: challenges ahead," June 2018.

[128] Agusten Carsten, “Digital currencies and the future of the monetary system”, 27 January 2021.

[129] Shivam Arora, “What Is Cryptocurrency: Types, Benefits, History and More”, 24 May 2022.

[130] Kathleen Richards, “Definition of cryptography”, 2020.

cryptocurrencies when the value falls and sell when there is a hike.[131] The downturn can be a loss for people who have bought the digital currency before it subsequently declines in value. A "dip" can occur when companies or influential people like Elon Musk decide to stop using them for business or as payment methods. The value can also rise when the reverse occurs. Following the rise of cryptocurrency, there has been a need to legalise and regulate its operation.[132] The controversy surrounding who controls it and its overall safety lies in the minds of people. While many countries such as Nigeria, Bolivia, Bangladesh and Thailand have outrightly banned cryptocurrency, others such as China and Argentina have only subjected it to restrictions and regulations.[133] In the United States, cryptocurrency is legal. It is regulated by the Bank Secrecy Act (BSA), a law enacted to prevent and investigate money laundering and monitor the different financial trends that can be used to perpetrate such crimes. The U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) also acts as an authority on virtual currencies, regarding them as equivalent to real currency. Other federal agencies such as the Securities and Exchange Commission (SEC), Internal Revenue Service (IRS) and the Commodity Futures Trading Commission (CFTC) also regulate matters of such nature.[134] This regulation only applies to the sale of security under a state of Federal law or a sale regarded by state law as money transmission by an individual regarded by Federal law as a Money Services Business (MSB).[135] Canada regulated cryptocurrency affairs under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. Hence, crypto exchanges must be registered as Money Services Businesses with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The Canada Revenue Agency (CRA)

[131] ibid.

[132] Alex Gailey, "Bill Gates Slams Crypto and NFTs, Crypto Hedge Fund Three Arrows Capital Faces Potential Insolvency Amid Crypto Crash, Coinbase Lays Off 18% of Workforce", 15 June 2022.

[133] Abdulkareem Mojeed, "Other countries, besides Nigeria, where authorities won't let you use cryptocurrencies", 6 February 2021.

[134] Comply Advantage, "Cryptocurrency Regulations Around the World", 2020.

[135] Ibid.

provides that cryptocurrency and is regarded as a commodity under the Income Tax Act RA generally treats cryptocurrency like a commodity for purposes of the Income Tax Act. It also provides that income generated from crypto transactions are deemed business or capital gains while losses are deemed business or capital losses.[136] On the other hand, cryptocurrencies used as a means of exchange for goods and services are regarded as barter transactions. The European Union in its European Banking Authority report recognizes crypto-assets as assets used as means of exchange or investment that depend on ledger technology and are not issued by any central banks or authority.[137] The report also warns consumers on potential risks associated with cryptocurrency including the absence and inadequacy of: business rules, risk disclosure, legal framework, suitability checks, as well as misleading information.[138] While there are schools of thought on why crypto should be legalized, there are valid reasons for it to remain cut off by the government. It is important to explore the two sides for a more balanced analysis. First, crypto serves the same purposes of normal currency which are mainly means of exchange and investment.[139] We should have the liberty to engage in legal transactions in whatever form we wish to, especially with the globalization of the world. Virtual currencies have blockchain systems which ensure that people do not double-spend the same kind. This also doesn't abuse normal currencies in any way. On the other hand, there are several concerns surrounding this means of payment. The concerns around cryptocurrency exist because of many reasons. It is still a novel means of exchange which is not understood by a lot of people. Also, it enjoys impenetrable data security and as such cannot be easily investigated. For example, the government cannot easily freeze a crypto tool as can be done with a fraudulent bank account. This means that it can be used as a tool for fraudulent activities and black-market transactions while the

[136] Government du Canada, "Guide for cryptocurrency users and tax professionals", 26 June 2021.

[137] Guidici, Milne and Vinogradov, "Cryptocurrencies: market analysis and perspectives", 17[t] September 2019.

[138] European Banking Authority, "EU financial regulators warn consumers on the risks of crypto-assets," 17 March 2022.

[139] ibid.

perpetrators can get away with it because they are anonymous. Another noteworthy point is that this impenetrable data security makes it virtually impossible to impose taxes on crypto transactions, bringing about tax evasion.

While legalization is a welcome idea in the finance world, there also exists some concerns about it. Legalizing crypto negates its decentralization and gives the government total control. Financial bodies can restrict where people can buy alternative currencies and block third-party cryptocurrency websites and wallets or even force the general public to buy directly from government-controlled sites.[140] For the first time in history, El Salvador recognized the legal tender status of Bitcoin as a currency alternative to the United States dollar (making them the first country to do so.) This innovative step, however, didn't come without its own peculiar challenges. There were numerous impediments to the use of their virtual wallet, Chivo Wallet, and one of them was a flaw that economists all over the world had already identified as potentially dangerous.[141] For a few hours, the app couldn't be found on the appropriate platforms. In spite of the fact that the problem was resolved within hours, the price of bitcoin fell by 19 percent from its four-month peak of $53,000 to $46,000. The fact that a minor glitch on a digital currency app in a small country was enough to send the currency spiraling with billions of dollars wiped out of the global market in a matter of hours was devastating. It becomes even more critical if cryptocurrencies are to be used on domestic and international markets in the near future, making a detailed regulatory framework even more necessary.

It will be difficult to establish a framework for regulation of decentralized cryptocurrencies with China's recent ban being one such example.[142] Online businesses simply relocated their operations in response to the September blockade. Cryptocurrencies had recouped their

[140] Pavithra Rao, "Africa could be the next frontier for cryptocurrency", 2018.

[141] Kristin Majcher, "El Salvador's Chivo wallet keeps breaking, and users are seeking answers", 28 January 2022.

[142] Ryan Browne, "Bitcoin price falls again on reports that China is shutting down local exchanges", 11 September 2017.

losses and were on the rise again a month after the crash. The reason for this regulation difficulty is that the demand for cryptocurrencies is a major factor in determining their value.[143] Users govern cryptocurrencies which means it is wholly decentralized and self-governing. When it comes to financial bubbles, cryptos are primed for the taking. Real-world factors such as the economy's performance and the availability of housing and natural resources are used to back traditional assets like stocks and bonds.[144] A financial bubble is more likely to form if these anchors are missing from the financial system as in the case of cryptocurrency. This makes them prone to sudden price changes because users only have a limited amount of disposable income to spend on them at any given time. For instance, bitcoin fell by 38% in May 2021, losing about $70 billion in a day.[145] In addition, crypto is not subject to any political or financial influences hence, a country's laws and regulations cannot hold anyone accountable for violating cryptocurrencies.

Another pertinent issue in the volatility of digital currencies is the effect of influential people such as Elon Musk. CEO of Tesla and Twitter sensation, Elon Musk, posted a tweet saying that his company would accept Bitcoin payment for the purchase of their electric carmakers. The price hiked in value especially with his promotion of the digital currency, Dogecoin. However, shortly after, he made another tweet reversing this decision. Hence, Tesla was to stop receiving payment in crypto. What followed was an unsurprising catastrophe as the global crypto market lost $365.85 billion.[146] It is not surprising that Chase Jamie Dimon, CEO of JPMorgan, disreputed Bitcoin, calling it a vicious tool "drug dealers and murderers."[147]

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[143] Jesse Pound, "The crypto collapse: Here's what's behind bitcoin's sudden drop", 19 May 2021.

[144]ibid.

[145] The Associated Press, "EXPLAINER: Why has the price of Bitcoin been falling?", 19 May 2021 .

[146] Arjun Khapal, "As much as $365 billion wiped off cryptocurrency market after Tesla stops car purchases with bitcoin.", 12 May 2021.

[147] David Gilbert, "JPMorgan CEO says bitcoin is for murderers, drug dealers, and North Korea", 13 September 2017.

In a more positive light, Ukraine became the fifth country to legalize digital currency.[148] Despite the fact that the Ukrainian parliament had passed legislation to legalize cryptocurrency, regulations were established to address the volatile nature of the cryptocurrency market. Ukraine, in contrast to El Salvador, also refrained from placing bitcoin on a par with the Hryvnia (Ukraine's national currency), as a result of the risks involved. The introduction of a new currency that is subject to unprecedented value fluctuations could complicate important financial issues such as the preparation of fiscal budgets and the planning of taxation. Going forward, Ukrainian authorities are seeking to develop a strategy to understand the intricacies of cryptocurrency before bitcoin is permanently incorporated into Ukrainian law.[149] Mass education and sensitization of the general public about emerging cryptocurrencies cannot be overstated.

Governments have legitimate reasons to regulate the cryptocurrency market. The motive behind many financial frameworks is that the governments of countries seek to promote their local currency to boost their economy. Hence, having a decentralized currency like crypto poses a threat to that purpose.[150] Others include protecting the economy from bubble burst (rapid inflation followed by a rapid deflation in the economy), preventing citizens from making uninformed decisions that cost them money, and preventing the laundering of illicit funds. Transactions can seem legitimate by unsuspecting individuals or people who are not knowledgeable about the intricacies of cryptocurrencies when in reality, the crime of money laundering is being committed.[151] In terms of the consumers, cryptocurrency is largely volatile and investors are susceptible to financial risks such as losing a lot of money within a short period of time. These setbacks then draw the question of who would be responsible when

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[148] MacKenzie Sigalos, “Ukraine is the latest country to legalize bitcoin as the cryptocurrency slowly goes global”, 9 September 2021.

[149] Kristalina Georgieva, “The Future of Money: Gearing up for Central Bank Digital Currency”, 9 February 2022.

[150] James Mcwhinney, “Why Governments Are Wary of Bitcoin”, 21 September 2021.

[151] Somer Anderson, “Why Is Deflation Bad for the Economy?”, 2 June 2022.

these happen. Cryptocurrency's future is uncertain or worse still, unknown. Commercial and central bank deposits and balance sheets could be adversely affected as a result of the rise of coins. There is a risk that this will lead to the demise of the monetary system.

Ensuring consumer protection in Cryptocurrency Investments

Consumer Protection are measures put in place for the safeguarding the rights and interests of consumers, thereby protecting them from exposure to vices of the business. Consumer protection in Cryptocurrency consists of acts and measures taken to protect consumers and their investments from the malpractices that exists as a result of crimes in cryptocurrency.[152] Consumers take a lot of risks in making Cryptocurrency Investments are very profitable despite not being an entirely safe invest due to some of its shortcomings such as vulnerability to cyberattacks which could cause enormous losses to consumers, this is one of the major threats posed to investors by cryptocurrency investments.[153] Hence measures have been put in place by Cryptoassets such as Bitcoin, Ethereum etc. To protect its investors from cyberattacks, one of the main means of cyberattacks are through cyber-exchange schemes such as Binance, Coinbase etc. These schemes are very vulnerable to cyberattacks from hackers, this causes third party associations to provide insurance for crypto assets. The primary duty of the European Banking Association (EBA) is to monitor new and ongoing financial activities and adopt guidelines as well as recommendations for the protection of investors in the financial markets.[154] In September 2013, the EBA became aware of 'virtual currencies' (VCs) as one of the many innovations which would require monitoring and after three months of analysis and studying, the EBA issued a public warning on 13 December 2013, informing consumers and the general public that VCs have no regulated hence it contains a

[152] Joe Ciccolo, "What every crypto business should do for consumer protection", 6 July 2020.

[153] Ruby Khan, Tahani Ali Hakami, "Cryptocurrency: usability perspective versus volatility threat", 29 November 2021.

[154] Simona Ramos, "A great disturbance in the crypto: Understanding cryptocurrency returns under attacks", September 2021.

lot of risks.[155] The EBA's Opinion on VCs paved the way for EU states as well as national supervisory authorities in the 28 Member States to address the regulations of VCs, as they are digital representation of value that is neither issued by a central bank or a public authority, but is accepted and acknowledged as a means of carrying out financial transactions as well as payments amongst individuals and consumers as a means of payment, it is usually transferred, stored or traded electronically.[156] These services are mainly provided by, exchanges, trade platforms, inventors, and e-wallet providers. Irrespective of the wholesome benefits of VCs, which include, reduced transaction costs, faster transaction speed and most especially financial inclusion, these benefits are less relevant in the European Union, judging by the existing and pending EU regulations and directives that are explicitly aimed at faster transactions speeds and costs and at increasing financial inclusion.[157] In an article released by the EBA titled "EBA Opinion on Virtual Currencies", analyzed majority of the risk factors in VCs investments. The risks, by a good margin outweighed the gains as over 70 risks were identified across several categories, including risks to both users and non-user market participants; effects on financial integrity as acts such as money laundering and other financial crime are easily carried out; risks to existing payment systems in conventional FCs, and risks to regulatory authorities.[158] Numerous causes and origins of these risks were identified, as these showed the need for regulatory measures that would be required to mitigate the risks. One of the major risks include the fact that a VC scheme can be created, and then during its function subsequently changed, by anyone, and even ended more so, the payer and payee can remain anonymous.[159] VC schemes do not regard jurisdictional

[155] The EBA group, "EBA Opinion on 'virtual currencies'". July 2014.

[156] The EBA group, "Opinion of the European Banking Authority on the EU Commission's proposal to bring Virtual Currencies into the scope of Directive (EU) 2015/849 (4AMLD)", September 2016.

[157] Government of India Ministry of Finance Department of Economic Affairs, "Emerging Perspectives in Fintech", 12 November 2018.

[158] Commission Staff Working Document: Impact Assessment, 24 September 2020.

[159] Stephen, A. Lumpkin, "Regulatory Issues Related to Financial Innovation", December 2009.

boundaries ; hence they evade financial sanctions and seizure of assets,this is one of the major reasons for the lack of governance in VCs. A regulatory framework that meets government requirements for several investors and client accounts, capital requirements, this framework is primarily in charge of the integrity of a VC scheme and its key components, including its protocol and transaction protection. Most countries use the Security and Exchange Commission (SEC) to checkmate cryptocurrency transactions,[160] the SEC primary responsibility is to protect investors by enforcing its nation's security laws and ensuring they are treated equally and fairly, also providing financial market security and most importantly take action against wrongdoers and lawbreakers The EBA further recommended that national supervisory authorities discourage major financial institutions from buying, holding or selling VCs. In addition, they advised EU legislators to contemplate declaring market participants at every direct interaction between conventional and virtual currencies, such as virtual currency exchanges, to become 'obliged entities' under the EU Anti Money Laundering Directive as it plays a major role in money laundering and terrorist financing.[161] This immediate response will protect regulated financial services from VC schemes and will reduce the chances of those risks that arise from the interaction between VC schemes and regulated financial services but not risks that arise within, or between, VC schemes themselves.

Other things being equal, this immediate response will allow VC schemes to innovate and develop outside of the financial services sector, including the development of solutions that would satisfy regulatory demands of the kind specified above. The immediate response would also still allow financial institutions to maintain, for example, a current account relationship with businesses active in the field of VCs.

[160] ibid.

[161] The EBA group, "EBA warns consumers on virtual currencies", December 2013.

The Cyber Threats of Cryptocurrency

With the proliferation of cryptocurrency, several cyber threats have equally skyrocketed. It is important to understand the variations of ways that they're exploited for cyber-attacks.

According to Proofpoint US, "ransomware is a type of malicious software (malware) that threatens to publish or blocks access to data or a computer system, usually by encrypting it, until the victim pays a ransom fee to the attacker."[162] How does this work? The criminals design encryptors which encodes data into private systems so that the user is logged out and unable to access their data without the decryption key.[163] Another means is by the use of lockers, as the name implies, they fraudulently lock down the system, usually asking the user to click on a link or pay a "ransome" to unlock.[164] Unsuspecting individuals, in a bid to redeem their system, fall victims of this criminal charade and lose their money and private information in the process. Different examples of ransomwares include Locky, WannaCry, Bad Rabbit, Ryuk, Petya, GoldenEye, CryptoLocker etc.[165] These attacks are so prevalent that bitcoin now accounts for 98% of crypto-denominated ransomware payments according to a Q1 Ransomware Marketplace report by Coveware.[166] In the first quarter of 2019, the average Ransome shot up to $12,762 from $6,733, Q4 of 2018's numbers (a whopping 89% increase). Another method cyber criminals decide is cryptojacking. Cryptojacking is a process in which criminals use people's details and devices to mine cryptocurrency without their knowledge.

These fraudulent behaviours validates the fears of global economists surrounding the emergence of cryptocurrency. If there is some sham or deceitful crypto transaction at one

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[162] Proofpoint US, "What is Ransomware?", 2022.

[163] Peter Loshin and Michael Cobbs, "Definition of encryption", April 2020.

[164] Lawrence Abrams, "The Locky Ransomware Encrypts Local Files and Unmapped Network Shares", February 2016.

[165] Al Kaspersky Labs, "Ransomware Attacks and Types – How Encryption Trojans Differ", 2022.

[166] Coveware, "Ransom amounts rise 90% in Q1 as Ryuk increases", 16 April 2019.

end of the chain, it is impossible for the victim to get their money restored because these transactions are anonymous and not easily detected.[167] Money laundering is a common theme among many crypto crimes. Criminal actors exploit the anonymity of the blockchain to launder gains from both off-chain and on-chain crimes to obfuscate the sources of illicit funds and convert them into cash for bank deposits. Cryptocurrency is used by criminals to launder funds from diverse types of crimes, from real-world crimes and schemes to cyber-crimes, digital fraud and thefts of cryptocurrencies from online exchanges. Most mainstream exchanges and other Virtual Assets Service Providers (VASPs) are subject to Financial Action Task Force (FATF) guidance, which aims to mitigate the risks of using virtual assets for money laundering and terrorist financing. FATF implements a risk-based approach to Anti-Money Laundering (AML) that includes Know Your Customer (KYC) regulations that require exchanges and other VASPs to verify their customers' identities. These regulations have prompted criminals to find advanced techniques to throw off financial investigators and launder their illicit funds.[168] Criminals utilize different methods and services that send funds through numerous addresses or businesses to obscure their origins. The assets are then sent from a seemingly legitimate source to a destination address or an exchange to be liquidated. This process makes it very difficult to trace laundered funds back to illicit activities.

Below are the 5 most popular methods employed by criminals for laundering funds on the blockchain.

Nested services are a broad category of services that operate within one or more exchanges. These services utilize addresses hosted by the exchanges to tap into the liquidity of the exchanges and capitalize on opportunities to trade. Some exchanges don't require high

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[167] Houben and Snyers, "Cryptocurrencies and blockchain Legal context and implications for financial crime, money laundering and tax evasion", July 2018.

[168] FATF, "Virtual Assets And Virtual Asset Service Providers," 2021.

compliance standards for nested services, allowing bad actors to exploit them for money laundering.[169] On the blockchain ledger, these nested services transactions appear as having been conducted by their host counterparties (i.e., the exchanges) rather than by the hosted nested services or individuals' addresses. The most common and notorious type of nested service is an **Over-the-Counter (OTC) broker.** OTC brokers enable traders to easily, securely and anonymously trade large amounts of cryptocurrency. The OTC brokers facilitate direct cryptocurrency trades between two parties, without the mediation of an exchange. These trades can be made between different cryptocurrencies (e.g., Ethereum and Bitcoin) or between cryptocurrencies and fiat currencies (e.g., cryptocurrencies, like Bitcoin and fiat currencies, like euros).[170] The OTC brokers find counterparties for a transaction in exchange for a commission, but do not get involved in the negotiations. Once terms are defined, the parties transfer the custody of the assets through the broker.[171]

Last August, The U.S. Department of Justice (DOJ) *filed a complaint to forfeit 280 cryptocurrency addresses* involved in the laundering of approximately 28.7 million dollars' worth of cryptocurrency stolen from an exchange by the North Korea-affiliated hackers known as Lazarus Group.[172] The complaint detailed two hacks of crypto exchanges by North Korean actors, who stole millions of dollars' worth of cryptocurrency and ultimately laundered the funds through Chinese over-the-counter (OTC) cryptocurrency traders, and follows related actions pertaining to the theft of $250 million in cryptocurrency through other exchange hacks by North Korean actors.

[169] Cognyte, "Money Laundering: The Key to Cryptocurrency Crime", November 2021.

[170] ibid.

[171] Bank for International Settlements, "A glossary of terms used in payments and settlement systems", March 2003.

[172] The United States Department of Justice, "United States Files Complaint to Forfeit 280 Cryptocurrency Accounts Tied to Hacks of Two Exchanges by North Korean Actors", 27 August 2020.

Gambling platforms are popular among cryptocurrency money launderers. Funds are paid into the platform through some combination of identifiable or anonymous accounts. They are either cashed out or placed in bets, often in collusion with affiliates.[173] Once the money in the *gambling* account is paid out, it can be given legal status. Gambling services have been specified in the Financial Action Task Force's (FATF) "*Virtual Assets Red Flag of Money Laundering and Terrorist Financing*" report, issued on September 2020.[174] In this report, FATF identified two situations in which gambling services can be considered as a red flag: Funds deposited or withdrawn from a virtual asset address or wallet, with direct and indirect exposure links to known suspicious sources, including questionable gambling sites. VA transactions originating from or destined to online gambling services.[175]

Mixers are services that blend digital assets from many addresses together before releasing them at random intervals to new destination addresses or wallets, thus *increasing anonymity*. They are often used to conceal the trail of funds before they are transferred to legitimate businesses or major exchanges.[176] Crypto money laundering via mixers has made headlines, and the numbers are big. In August 2021, the custodial mixing service *Helix* was implicated in a $300 million conspiracy that involved the money laundering of assets generated through drug trafficking and other illicit activities. *The DOJ's charges*focus on the intent of Helix to help users conceal the ownership of Bitcoin generated through darknet activities, mainly from the Grams and AlphaBay darknet sites. Helix has been described as a "darknet-based cryptocurrency tumbler." Another notorious example is Bestmixer custodial mixer, accused of facilitating the laundering of criminally obtained funds. It was seized last year, with *Europol*claiming that most of the funds that passed through this custodial mixing

[173] ibid.

[174] Daniel Warren, "What is the Bitcoin money laundering process?" 12 June 2022.

[175] FATF, "FATF REPORT Virtual Assets Red Flag Indicators of Money Laundering and Terrorist Financing", September 2020.

[176] Sol Gonalez, "Crypto Mixers: What are they and how are they used?", 20 June 2022.

service "had a criminal origin or destination, probably to conceal and launder criminal flows of money."

Non-compliant exchanges are exchanges that do not obey or are not subject to regulations or have lax compliance programs. These exchanges require little or no user identity verification to transfer crypto-assets and hence are very attractive for illicit actors.[177]

According to a recent study, the *transaction volume* of non-compliant exchanges in 2020 amounted to nearly $20 billion, of which $4.2 billion served illicit transactions, a 16% increase in the illicit transaction volume compared to 2019. This research indicates that non-compliant exchanges are so attractive to criminals that they process 10 times more illegal transactions than exchanges with established KYC and Anti-Money Laundering (AML) policies.[178] **Services headquartered in high-risk jurisdictions** are services in jurisdictions identified as having strategic deficiencies in their AML or Combating the Financing of Terrorism (CFT) regimes.
The Financial Action Task Force (FATF) identifies jurisdictions with weak measures of combating money laundering and terrorist financing (AML/CFT) *in two public documents*, which are often externally referred to as the "black list" and "grey list." The *European Commission* also identifies countries that have strategic deficiencies in their AML/CFT regimes and that pose significant threats to the financial system of the European Union.

[177] ibid.

[178] Richard Clark, Sarah Kreps, and Adi Rao, "Shifting crypto landscape threatens crime investigations and sanctions", 7 March 2022.

The Future with Cryptocurrency

An ever-increasing number of nonprofit organizations utilize cryptocurrency in order to eradicate global poverty.[179] The speed of transactions, financial inclusivity as well as economic stability that cryptocurrency offers are viewed as unrivalled and invaluable, especially for those who are in crisis, with no bank access or struggle with inflation. Below are four VC based NGOs which carry out poverty alleviation schemes; GiveCrypto was formulated in June 20, 2018, this is a nonprofit organization that links cryptocurrency directly with global poverty reduction, with Bitcoin being most recognized cryptocurrency used by this organization amidst others such as Bitcoin Cash, Litecoin, Ethereum, XRP and Zcash., and has raised $4 million so far.[180] The founders aim to improve the well-being of individual people struggling in their communities. However, they also want to build up the economies of these communities. For this reason, the ultimate goal of the organization is "to help spark economic growth by giving access to property rights and financial services on an open network."[181] Other examples of crypto-empowerment schemes include; CareBit, BitGive, Binance Charity Foundation etc. Uniting cryptocurrency and poverty reduction initiatives demonstrates the increasing demand for improved donating systems in response to a lack of trust in how charities spend their funds.[182] Thus, the increased transparency that cryptocurrency offers through blockchain's traceability feature could potentially reassure donors and encourage them to donate. Whether or not cryptocurrencies will become influential enough to directly strengthen the economies of the developing world, however, is still unclear

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[179] Ariana Howard, "Cryptocurrency and poverty reduction", September 2019.

[180] R Houben, "Cryptocurrency and the blockchain", July 2018.

[181] ibid.

[182] Binance Charity Foundation (BCF), "Binance Charity's Mission to Achieve Greater Transparency in Philanthropy", July 2019.

The Digital divide is the gap between those with Internet access and those without it. But the digital divide is multifaceted and includes many factors such as access, affordability, quality, and relevance. Internet connectivity is an important tool to enable people around the world. UNICEF's Project Connect is mapping schools and their connectivity around the world to help people understand what regions are lacking basic connectivity.[183] Alongside the use of blockchain, Project could help bring people online, there are over 300 million young people across the globe that are not connected to the internet at school.[184] They lack connectivity to information that the rest of the world takes for granted. These children are being left behind, while their peers from wealthier and more connected regions are getting better education, access to health information, and higher financial inclusion. Children that are disconnected will have a more difficult time finding jobs given that they are unable to acquire digital skills - digital skills that are now integrated into most jobs and livelihoods.[185] A UNICEF initiative, called Project Connect, has embarked on a journey to map all schools in the world using satellite imagery, machine learning, and data science. With real-time data, governments and network providers can locate schools that do not have access to the internet. These maps can be used to drive partners to provide connectivity to these schools. Project Connect, along with Blockchain, can introduce the ability to connect these children in a fair and transparent manner around the globe.[186] Blockchain is a system in which records information are maintained across several computers that are linked in a peer-to-peer network. Cryptocurrency is viewed as a male-dominated arena, research carried out by eToro showed that as of January 2021, only 15% of Bitcoin traders and 12% of Ethereum traders on its platform were female. In recent research shows a change as eToro pegs an overall surge in demand for crypto assets on its platform to this new wave of female investors in

[183] Carmen Steele, "What is the Digital Divide?" 22 February 2019.

[184] Mehran Hydray, "Reducing the Digital Divide Using Blockchain", 18 June 2019.

[185] OECD, "Equity and Quality in Education: Supporting Disadvantaged Students and Schools", 2012.

[186] Christine Sund, "Space helps us locate schools and connect them to Internet", 2021.

cryptocurrency. More so trading app Robinhood also saw a seven-fold increase in the number of women trading crypto on its platform in March 2021, unlike the end of 2020.[187] The more female crypto investors will have a great impact on lessening the gender pay gap and empowering women to take control of their wealth and future. Investments can help women close the wealth gap with men and reach those financial goals, and an investment like cryptocurrency could be the main player. In times past, women have had less control over their finances, and VC investments may offer them a way out of a financial system that has not favored them or maximized their efforts. Money laundering and crime rates which occur in cryptocurrency get more rampant by the day as new means of carrying out these crimes are being improvised and this is due to the lack of legal backing that cryptocurrency lacks which makes it very vulnerable to these attacks, and serves as the also a means of financing terrorism, these acts are increasing by the time in cryptocurrency so hence states would need to put check points on virtual currency transactions to effectively minimize these vices.[188] Futuristically legal actions and regulations would be needed to properly maximize the positives of cryptocurrency which easily achieves a number of SDGs and counter balances the vices and negative which are caused by the downside cryptocurrency.

The Environmental Effects of Cryptocurrency

Over the years for as long as we humans have existed, we have witnessed various ways that people's action have one way or the other affected the environment like Climate change, Global warming, Deforestation and the likes. In recent times cryptocurrency has also joined the league of factors that affect the environment.[189] But before going into the effects caused

[187] ETORO, “Cryptocurrency and Blockchain: same, same but different”, 3 November 2019.

[188] CipherTrace, “Cryptocurrency Crime and Anti-Money Laundering Report”, February 2021.

[189] Erika Rasure, “What's the Environmental Impact of Cryptocurrency?”, 28 May 2022.

by cryptocurrency, we need to understand what cryptocurrency/virtual currency is all about and its impacts on the environment. In April of 2011, the price of one bitcoin was $1; and 10 years later as of 2021 it reached an all-time high of nearly $65,000,[190] with constant changes in valuation across the market day by day, as of today June 1st 2022 it is valued $37,341.[191] This has made some of its investors millionaires overnight, intriguing more and more people to join the cause through investing in cryptocurrencies like Bitcoin, Ethereum etc. But Bitcoin's rising popularity has contributed largely to the world's inability to wave off the worst impacts of climate change, due the energy consumption of cryptocurrency being enormous and its environmental implications profound.[192] What do these processes entail?

Cryptocurrency as we know doesn't make use of dollar bills and other currencies for transactions. Instead, it generates its own coin through the mining process. Mining comprises massive decentralized computers all over the world that verify and safeguard Blockchain which serves as a virtual ledger that record crypto transactions.[193] It is like a big data center where companies buy the hardware and pay for the electricity required to keep it operating. One major environmental effect of cryptocurrency is the intensity of energy usage in transactions and generating coins. According to the Cambridge Centre for Alternative Finance (CCAF), Bitcoin consumes 122.61 TWh, accounting for 0.55% of the world's 22,315 TWh energy consumption and 0.19 %of global energy production.[194] The demand for energy to mine and transact cryptocurrency has triggered global debate in current times, though the energy required differs among cryptocurrencies. Digiconomist estimates that between 2017 and 2022, bitcoin consumed 145.92 TWh (which is about the total power consumed in

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[190] Renee Cho, "Bitcoin's Impacts on Climate and the Environment", 20 September 2021.

[191] John Edwards, "Bitcoin's Price History" 13 June 2022.

[192] Supra, 153.

[193] Cointelegraph "What is cryptocurrency? A beginner's guide to digital currency".

[194] Nathan Reiff, "What's the Environmental Impact of Cryptocurrency?", 28 May 2022.

Ukraine.) Cryptocurrency mining also accounted for a carbon footprint of 81.39 Mt CO2 and 37.31 kt in electronic waste.[195] The same report revealed that it takes 15 82.12 kWh to mine one Bitcoin, the equivalent of the total energy consumed by an average American home over a period of 54.23 days. For Ethereum, the total energy consumed annually is 54.34 TWh,[196] with a carbon footprint of 30.31 Mt CO2.5 Bitcoin is currently the biggest cryptocurrency. States 4.7 billion metric tons (416,738 MT8) of carbon dioxide emissions in 2019 and Kazakhstan generate most electricity by burning fossil fuels Because of crypto's popularity and advancement over the years, many people are finding it intriguing to invest in it in order to get richer, which makes it quite impossible to carve out the effects it has on the environment. It requires immense energy consumption to run, making the environmental implications virtually unavoidable.[197]

In accordance with the Sustainable Development Goals concerned with climate action, stable climate is planned to be achieved by the year 2030, but with the two-sided coin of cryptocurrency which greatly contributes to economic development but also hinders the environment and our climate as a whole with an impeccable quantity of carbon emission into the environment this in turn damages series of habitats (atmosphere i.e. the Ozone layer as well as the fossil release into the hydrosphere). So what call is it going to be a call to save the environment and regulate these emissions or play deaf ear and reap the benefits of these virtual currencies and attain sustainable economic development?

[195] Leigh Cuen, “The debate about cryptocurrency and energy consumption,” 2021.

[196] Statista, “Ethereum energy consumption worldwide from May 2017 to January 10, 2022”.

[197] Tom Wilson Reuters, “Kazakhstan's bitcoin 'paradise' may be losing its lustre” 17 January 2022.

Conclusion

Cryptocurrency is a major part of human evolution as it is definitely an important aspect of the utopia we want to achieve with the achievement of the SDGs, despite the many negatives seen above the positives play a major role in proper socio-economic development of the society as a whole, in aspects such as financial inclusion, youth empowerment, job creation hence reducing unemployment and poverty rates. This also in turn gives individuals power and control over their finances through the power of Fintechs. Also controlling and regulating the negatives of VCs such as money laundering, cyberattacks environmental pollution and terrorism funding, which are the major flaws of VCs and need proper regulatory bodies to check mate these negatives, and provide better means of carrying out every day transactions through virtual currencies these hurdles are either totally eliminated them or their effects are reduced to the bare minimum. We implore major world powers to come together and regulate cryptocurrency usage in order to prevent its exploitation and prevent it from hindering the future generation, granting them a better stance at achieving the SDGs.

Further Research

Is legalization thereby important? How can different Member States ensure the legalization of cryptocurrency? Suggest means of regulating the carbon emission caused by cryptocurrency as well as attaining proper economic development. For regions with little or no cryptocurrency regulations like most African countries suggest collaborations as well as regional frameworks which can aid this cause, with the individuality of each state being explored. Lastly in the shortcomings of Cryptocurrency such as money laundering, ransomware attacks as well as terrorist sponsorships, provide implementations that can tackle these inadequacies.

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Binance Charity Foundation (BCF) is committed to achieving 100% transparency in philanthropy. With blockchain technology, we are redefining the charitable giving process and ensuring 100% of all donations are distributed directly to the hands of those in need.

Carmen Steele, "What is the Digital Divide?" available at http://www.digitaldividecouncil.com/what-is-the-digital-divide/ (accessed April 10th, 2022).

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This article deals on the differences between cryptocurrencies and blockchain. A cryptocurrency is a digital asset that works as a medium of exchange.

Cryptocurrencies can be used for an almost endless number of things, from cross border transactions, to trading, and investments. Cryptocurrency is far more secure than fiat currency (pounds, dollars etc), as it works off of strong cryptography and a de-centralized digital ledger called a blockchain.

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Kazakhstan's crypto mining farms are powered by ageing coal plants mainly, which contribute largely to environmental pollution as well as Global warming, causing a headache for authorities as they seek to decarbonise the economy in line with the SDGs. Power-hungry miners have forced the former Soviet state to import electricity and ration domestic supplies.

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