Foreign Affairs Canada

Policy Position Paper

Topic: FAILED AND FRAGILE STATES

Name of University:	**University of Calgary**
Name of Course:	**International Relations 501**
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Summary of Class Discussion:

Issues Identified:

As a leader in the modern international system, Canada has a responsibility to aid those nations currently undergoing development. Those nations may include fragile states that are reaching a crisis point due to internal problems, division within the country or the limited capacity of the government to exercise law enforcement. Fragile states often exhibit geographical and physical impediments that may limit development. Canada can influence these states by using debt relief as a policy tool to facilitate economic progress. Relief of debt reduces a country's interest payments and allows spending to occur on long-term development. Money can be spent on emergency food and water, health care, education and social reforms.

Currently, Canada participates in the Heavily Indebted Poor Countries (HIPC) initiative whose goal is to reduce the debt of the world's poorest countries from $214 billion to $70 billion by 2015. Canada is also an active member in the Paris Club, a bilateral international financing institution that provides debt rescheduling. Since 2001, Canada has written off $477 million in debt[1]. In addition to this progress, the Canadian Debt Initiative is a unique program that allows countries that have completed the HIPC process to write-off their outstanding Canadian debt. Canada has also provided approximately $3.1 billion annual in international assistance, primarily through the Canadian International Development Agency (CIDA).[2]

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[1] Department of Finance Canada, 2005, *An Update on Canada's Debt Relief Efforts*
[2] Ibid.

Areas of Consensus/Disagreement:

Critics of debt relief claim that funds provided are often used in the strategic and economic interests of the donor countries or powerful domestic groups. They also claim aid is wasted on overpriced goods and services from foreign countries. Funds may be used by corrupt governments on military spending rather than humanitarian efforts. In addition, debt relief may enhance the wealth and spending power of the rich who in turn invest in developed countries, thus eliminating the potential trickle-down effect. The current debt relief regime penalizes countries who manage their debt well by only considering states that face an unsustainable debt burden.

Proponents of debt relief contend that extreme poverty leads to violence and social upheavals and by alleviating debt payments, fragile governments are able to reorganize their economic spending. It is also argued that well-off nations have a moral duty to help those in need. In addition, advocates claim funds loaned were spent by the ruling elite and the burdened masses should not be responsible to pay back the principal and interest.[3] Furthermore, stock markets generally appreciate under debt relief.[4] Finally, the principle of co-responsibility exists between debtor and creditor; therefore the creditor must be accountable for the loan likely known not to be repaid in full.

Our Response to e-Discussion Questions
Short vs. long term commitment

Canada will have a long-term commitment to debt relief by:

- Raising Canada's international relief spending from 0.2% of GNP to 0.4% by 2010 and 0.7% by 2015 in line with the Millennium Development Goals
- Continuing G8 push for 100% debt relief if HIPC completion points are met
- Striving for additional monitoring of fund distribution, more training of advisors by Canada/World Bank/IMF sent to regions
- Not enforcing a specific development policy, allow flexibility within the country/region
- Allowing aid to flow to regions with fewer restrictions, a country will not have to follow a strict IMF economic policy for three years and can work with advisors to produce an interim Poverty Reduction Strategy Paper (PRSP)

Policy Recommendations

Specifically, the impacts of our recommendations include:

- Raising international aid to 0.7% costing Canada approximately $6,339,403,000.00*
- Only countries meeting HIPC criteria will be eligible for debt relief
- Additional monitoring/regional advisors will ensure more accountability, proper use of funds

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[3] http://www.absoluteastronomy.com/encyclopedia/d/de/debt_relief.htm
[4] Arslanalp, S., & Henry, P. B. (2005). Is debt relief efficient?. *The Journal of Finance*, *60*(2), 1017.

    - Implementation of domestic groups to work together with the donor country
    - Follow-up with the spending of the funds
    - Financial incentives to governments when policy is followed
- By allowing flexibility, developing countries are awarded more self-determination
- With implementation advisors, a larger number of the poorest countries would have the opportunity to qualify for debt relief through the HIPC process
- Development-technology fund would provide cheaper access to medicine and other technologies researched and developed by developed nations who are then financially reimbursed for their contribution