

**increasing financial flows to support adjustment. It means changing policy structures so that the poor are helped not harmed by adjustment. Canada's contributions to the IFIs should be predicated on such an initiative for North-South reform.**

The IFIs' direct and indirect role in debt reduction also needs to be reviewed. First, these institutions, as "lenders of last resort," are themselves major creditors of many poor and highly-indebted countries. In some recent years the Bank and the Fund have actually contributed to the problem of capital outflow from the Third World, becoming net recipients from those they are supposed to be helping. This is unacceptable, yet providing any relief on the terms of their own loans is officially against Fund and Bank policy. About a dozen debtor countries are currently in arrears to the IMF making them pariahs in the international financial system. Canada addressed this "catch-22" in the case of Guyana where the rules were bent in order to get a Fund-approved adjustment program in place while clearing the arrears. Unfortunately, this special treatment has not been good news for Guyanians. Moreover, the policy issue of the IFIs considering changes to allow concessional rescheduling or partial forgiveness of their loans remains unresolved by these ad hoc responses. The Royal Bank's Ed Neufeld argued that the IFIs should practise what they preach to the commercial banks, as long as their ability to borrow is not impaired. Roy Culpeper of the North-South Institute cautioned however, that any policy changes should not rebound against the long-term interests of borrowing countries. **We believe Canadian policy should be that the IFIs must remain on a constant basis net lenders to, not creditors of, the developing nations. We therefore urge the government and Canada's executive directors at the IMF and World Bank to study ways in which this objective can be maintained without jeopardizing multilateral banks' access to financial markets.**

A second controversy revolves around the use of scarce IFI resources to finance debt reduction schemes within the limits of the Brady initiative, about which we encountered considerable skepticism in Washington and New York as well as during our hearings in Ottawa. The brief of the churches' taskforce argued that "this is not the best use of our government dollars aimed at assisting debtor countries. Every dollar of international funds that is used for this purpose (effectively "back-stopping" bad debt as an incentive to the banks to accept reductions) is a dollar which is not available for more productive development purposes in the country concerned." We agree that commercial banks now have the flexibility to participate in debt reduction that will provide real benefits to their developing-country clients, and we earlier recommended that Canadian regulatory and tax policies act as an incentive to achieving this outcome. How much the process of debt reduction should be underwritten by international public funds, or even through the creation of a new international debt restructuring institution for which there have been