

MEMORANDUM

TO: Administrator of the United States Agency for International Development, Samantha Power

FROM: Ayo Aina, Edward Clark, Pedro do Carmo Cunha, Cameron Harper, Trevin Hernandez, Emma Ko, Matthew Mascorro, Joel Mendoza-Lozano, Alec Rehagen, Frida Ruizesparza, Kincaid Schramm, and Jared Williams

SUBJECT: The Impact of Conflict on Global Financial Security

DATE: 11 Feb 2023

1. PURPOSE:

- a.** To provide relief for vulnerable, low-income countries facing distress exacerbated by the Russo-Ukrainian War and to prevent further conflict and strengthen international relationships.

2. POSITION:

- a.** Providing economic development grants to help digitalize low-income countries. This helps to stabilize currently distressed nations and prevents the spread of conflict while keeping vulnerable countries competitive in the international economy, enhancing global security and US influence.

3. KEY POINTS:

- a.** It is vital to increase US influence in areas that are increasingly being influenced by the People's Republic of China through their Belt and Road Initiative.
- b.** As a result of the invasion of Ukraine by Russia, prices of essential goods like food and fuel have increased. This puts an incredible strain on low-income countries that already were facing distress caused by the Covid-19 pandemic.
- c.** Global conflict is at a 30-year high, causing further distress on these low-income nations.
- d.** The International Monetary Fund (IMF) calculated that 60% of low-income developing countries were in debt distress or at high risk of it. With sovereign default, the principal amount of money and interest owed to creditors such as the United States is lost.
- e.** The governments of weak and failed states do not hold a monopoly on violence which in turn can harbor terrorism and cause states to fall into civil war. This leads to many young men being disenfranchised and recruited by violent local groups, resulting in further conflict.

4. DISCUSSION:

- a. There are several good candidates for this program:
 - i. Sri Lanka: A country that defaulted on its debt and 32% of the population faces food insecurity.
 - ii. Argentina: A key anti-terrorism partner with 94.8% inflation in 2022 and 4 out of 10 people below the poverty line.
 - iii. Egypt: A geographically important country with a 95% debt-GDP ratio.
- b. China is the preferred lender to the world's low-income countries, owning 37% of their debt in 2022 compared to 24% owned by other lenders. This increases China's power on the global stage by increasing dependency.
- c. Loan programs from the IMF tend to be too restrictive and many leaders face internal pressure against restructuring their debt as doing so can be seen as recognizing regime failure. This is good reasoning for grants as an alternative option.
 - i. According to a report by Credins Bank in Albania, 68% of all foreign aid was conducted via the use of grants.
- d. Increased infrastructure, agriculture, and sustainable energy, strengthen the economy, and make vulnerable countries more self-sufficient and less dependent on predatory countries like China or Russia.

5. RECOMMENDATIONS:

- a. By taking action to help foreign governments invest in the new technologies they need, we can spur growth and help close the divides that exist between nations, strengthening global cohesion. The core principle of digital transformation is to replace outdated and analog processes with modern, fully integrated technology. Doing so immediately reduces or eliminates the inaccuracies, delays, and lost data associated with manual processes. Data show that digital firms are more productive, employ more skilled workers, and foresee more employment growth opportunities ahead.
- b. Provide Economic Development Grants for Digitalization
 - i. *Infrastructure*
 - 1. Allowing access to the internet to 2.9 billion people worldwide who are currently without it (37% of the world population) increases their economic opportunities. A 10% increase in mobile phone infrastructure has increased global GDP by 2.0% from 2000-2017.
 - ii. *Digitalized Financial Literacy*
 - 1. Digitalizing financial education programs can effectively improve governments' ability to budget, handle debt and credit, and invest. This can be done through effective online scenarios and education programs for government officials.
 - 2. As a result of the spread of mobile phones or other digital technologies, millions of formerly excluded and underserved poor customers are moving from

exclusively cash-based transactions to formal financial services using a mobile phone or other digital technology to access these services.

iii. *Sustainable Energy*

1. Digital data and analytics can help achieve greater efficiencies through improved planning, power plant efficiency, and project design throughout the overall power system. In one example, a power plant producing 4500 terawatts after digitalizing would have consumed 70 million tons less coal, emitted 200 million tons less CO₂, and saved \$4 billion each year because of increased efficiency.

iv. *Agricultural Development*

1. Growth in the agriculture sector through the development of farming machinery automation, remote satellite data, in-situ sensors, traceability technology, and digital logistics are 2 to 4 times more effective in raising incomes among the poorest people compared to other sectors.
2. The use of local language videos on tablet computers and decision support tool apps on smartphones can provide personalized advice resulting in better jobs, and an increase in crop yields for lower-income farmers.
3. Finally, digital technologies can support trade in agriculture and food products, by connecting private sector suppliers to new markets.

c. Counter Argument 1

- i. The program could fail without the provision of the necessary infrastructure framework to enable the success of vulnerable countries in the absence of American management.

d. Rebuttal 1

- i. The United States has a long history of development projects that have continually improved through experience. Given this history in leading international development, and with involvement from the participating countries, our program can provide these developing nations with the means to ensure that they are self-sufficient. Japan and Germany provide two examples of such support leading them to become two of the world's economic powerhouses and United States allies.

e. Counter Argument 2

- i. Grants can be spent inefficiently, wasted, or moved toward corrupt actors.

f. Rebuttal 2

- i. The digitalization program will need to be evaluated and approved by the United States government before implementation to ensure that the program is the best path towards development in the country, and grants will be spent in installments with periodic reviews and audits.

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