

Sell IMF gold to cancel the debt: decision time is now



EURODAD
European Network on
Debt and Development

CIDSE
Coopération Internationale pour le
Développement
et la Solidarité



Halifax
INITIATIVE
d'Halifax

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About the signatory organisations:

EURODAD

The European Network on Debt and Development (EURODAD) is a network on 48 NGOs in 15 European countries who work on issues related to debt and finance, poverty reduction policies and empowerment. EURODAD's overarching aim is to work for national economic and international financing policies that achieve poverty eradication and the empowerment of the poor.

The Brussels Secretariat acts as an information hub, monitoring and analysing changes at the international level, gathering and disseminating knowledge and experiences from the national level, and developing new policy positions to feed into advocacy, campaigning and education work by our members and other contacts around the world. Eurodad staff also engage in lobbying work at the multilateral level with the World Bank, International Monetary Fund (IMF) and European Institutions.

<http://www.eurodad.org/>

CIDSE

CIDSE (Coopération Internationale pour la Solidarité et le Développement) is an alliance of 15 Catholic development organisations from Europe and North America. CIDSE members share a common strategy on advocacy work, development projects and programmes, and development education.

<http://www.cidse.org>

AFRODAD

AFRODAD is a research, lobby and advocacy regional organisation seeking to secure positive policy changes to redress Africa's debt and development crisis in order to achieve equitable and sustainable development that will lead to an African and worldwide prosperous society. It is a civil society organisation born of a desire to secure lasting solutions to Africa's mounting debt problem which has impacted negatively on the continent's development process.

<http://www.afrodad.org/>

Jubilee USA

Jubilee USA Network began as Jubilee 2000/USA in 1997 when a diverse gathering of people and organizations came together in response to the international call for Jubilee debt cancellation. Now over 60 organizations including labor, churches, religious communities and institutions, AIDS activists, trade campaigners and over 9,000 individuals are active members of the Jubilee USA Network. Together we are a strong, diverse and growing network dedicated to working for a world free of debt for billions of people.

<http://www.jubileeusa.org/>

Halifax Initiative

Halifax Initiative is a coalition of development, environment, labour, human rights and faith groups deeply concerned about the international financial system and its institutions. The Halifax Initiative was formed in the context of an international movement of non-governmental organizations focused on evaluating the role and record of the Bretton Woods Institutions at the time of their 50th Anniversary. Canadian NGOs formed the Halifax Initiative in December 1994 to ensure that demands for fundamental reform of the international financial institutions were high on the agenda of the G7's 1995 Halifax Summit. The Halifax Initiative has established itself as the Canadian presence for public interest advocacy and education on international financial institutional reform.

<http://www.halifaxinitiative.org/#>

Executive Summary

Debt owed to the International Monetary Fund (IMF), World Bank and other multilateral institutions has grown rapidly in recent years and these institutions are now the major creditors of the world's poorest countries. Because there are serious consequences for countries which default on payments to these bodies, multilateral debt can be extremely onerous for countries struggling to provide for even the most basic social and development needs of their citizens.

Every year six million children die from malnutrition before their fifth birthday. Every day more than 800 million people go to bed hungry and 24 thousand die of starvation. HIV/AIDS kills more than 2 million people every year and adds to the league of millions of orphans in developing countries.

Civil society organisations across the globe have long advocated the use of the International Monetary Fund's impressive and massively undervalued gold reserves to fund further debt relief for impoverished nations. Now the viability of this proposal, after years of opposition, has been formally recognised by the staff of the IMF in a new paper. The paper states clearly that it is possible to sell large amounts of gold on the open market without negative impact on world gold prices. Gold sales could be managed within the framework of the Central Bank Gold Agreement (CBGA). This acknowledgement will alleviate the concerns of gold producing nations, many of which are low-income countries. The paper also states that the Fund's Articles of Agreement provide for the outright sale of gold at prevailing market prices, the proceeds of which could be used to cancel impoverished countries' debts.

In 2005, civil society organisations are coming together under the banner of the Global Call to Action Against Poverty. This worldwide mobilisation for action on debt, aid and trade is the biggest civil society movement since Jubilee. Now is the time for leaders of the rich world when they meet in Washington on 15 April for the Spring Meetings of the IMF and World Bank to act!

In light of the massive resource gap faced by impoverished nations to meet the MDGs, we the signatory organisations to this paper call on world leaders to support:

- The phased sale of all of the IMF's gold reserves in the framework of the Central Bank Gold Agreement to fund debt cancellation for impoverished nations. It is not justifiable to leave these resources idle;
- Resources from these gold sales should be used to support the cancellation of debts of all those countries which are unable to meet the MDGs by 2015;
- The proceeds of these gold sales should be used not just to cover debts owed to the IMF, but debts to other multilateral development banks as well.

The clock is ticking – every 3.6 seconds someone in the developing world dies of starvation. Every 30 seconds, a child in Africa is killed by malaria, a preventable disease. Too many have died and too many lives have been blighted. We cannot afford to sit on our hands anymore. Every year, every month, every day and every second of delay is morally unacceptable. **The time to act is now! The world is watching!**

Since the G7 began discussing proposals for up to 100% debt cancellation in June 2004, more than 4 million children under five have died. How many millions must perish before world leaders move from rhetoric to action!
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Introduction

The International Monetary Fund (IMF), in a new paper, has joined debt campaigners across the globe by stating very clearly that it is in fact possible to sell its vast undervalued (and idle) gold reserves to finance further debt relief for some of the world's most impoverished countries.

Developing countries are crippled with a debt of almost US\$ 2.5 trillion. Of this amount, low-income countries owe over US\$ 523 billion to some of the world's wealthiest countries and institutions (such as the IMF and the World Bank). In 2002, low-income countries paid out US\$ 39 billion in debt service, roughly equal to US\$100 million per day.¹

The world agrees that low income countries are blighted by unacceptably high levels of poverty. A mother dies every minute and a child every three seconds due to poverty.² Crucially, these countries desperately need additional resources if the Millennium Development Goals are to be met by 2015. Current debt relief efforts, in the framework of the Heavily Indebted Poor Countries (HIPC) Initiative have so far clearly failed to deliver the promise of a "robust exit from the debt crisis" and it is now widely recognised that debt relief has simply not gone far enough for countries to be able to fight poverty.

Civil society organisations across the globe have long argued that the phased sale of the IMF's idle gold reserves would be an effective and highly efficient way of freeing up additional resources for debt cancellation. The IMF paper, prepared by the Fund's Department of Finance at the request of the major creditor nations last year, was discussed by the IMF Board on 30 April. It illustrates very clearly the technical feasibility of gold sales and says that these resources can be spent on the cancellation of developing country debt. The paper will be discussed again at the next G7 meeting on 15 April in Washington DC. It is now up to the world's political leaders to ensure that this opportunity is acted upon.

IMF Gold: It's Possible!

The IMF is the world's third largest holder of gold after the United States and Germany. It holds 103.4 million ounces of gold (3.217 tons) currently valued at US\$ 9 billion. At end-2004, its market value was estimated at around US\$ 45 billion.

Civil society organisations across the globe have consistently argued that the IMF's massively undervalued gold reserves constitute a considerable (but idle) resource which should be put to productive use to cancel the multilateral debt of the poorest countries. Several studies by NGOs have shown that the gold market can absorb the sale of significant amounts of gold without negative consequences on world gold prices, provided that gold sales are conducted in an open and transparent manner over a reasonable period of time (for example 20 years).³

¹ Oxfam International, 2004

² Ibid.

³ See: "The IMF, Gold Sales and Multilateral Debt Cancellation", Sony Kapoor for Debt and Development Coalition Ireland, September 2004: <http://www.debtireland.org/> ; and "Paying for Multilateral Debt Cancellation: Current Proposals Explained", Sony Kapoor for EUROADAD, January 2005: <http://www.eurodad.org/articles/default.aspx?id=576> .

The IMF, in its paper, has now finally acknowledged that this is in fact possible. In particular, it endorses the arguments long put forward by civil society organisations that phased gold sales within the framework of the Central Bank Gold Agreement (CBGA) or direct sales to gold purchasing central banks are possible. It states that *"the CBGA has supported the capacity of the gold market to handle significant official sales by conducting sales in a transparent and predictable manner"*. It goes even further to acknowledge that *"official sector sales have increased to the market significantly on average since 1999, without [...] disruption"*.

The paper also fully endorses NGO arguments that a revaluation of gold reserves should be avoided because of the significant transaction costs associated with such a measure. The paper puts the *"on-going cost of this operation at SDR 94 million [US\$ 141 million] per annum, which has so far been burden-shared by debtor and creditor members.[...] This negative income effect, and the burden it may impose on debtor and creditor members, raises questions whether it would make sense for the Fund as a financial institution to repeat such an operation"*.⁴ It recommends therefore that any future operation involving the use of gold should be *"conducted through outright sales rather than off-market transactions as used in 1999-2000"*.

The paper also recognises that gold sales need not necessarily weaken the financial integrity of the IMF: *"gold sales per se need not erode this strength"*. The Articles of the Fund also provide that the IMF may *"sell gold outright on the basis of prevailing market price"*.

A Question of Political Will

This recognition that gold sales are indeed technically possible represents a clear victory for developing countries around the world. The paper, however, does not go nearly far enough. For example, the IMF recommends an overall sale of between only 13 to 16 million ounces of gold (around 12.5% and 15.5% of the IMF's total gold reserves). It also recommends using only the profits from gold sales to cancel poor country debt while it retains the nominal value. Sadly, the IMF also does not appear to want to consider the possibility that its gold reserves could be used to cancel some of the debts owed to other multilateral institutions such as the World Bank. Nevertheless, the technical arguments are won. The IMF has stated very clearly that gold can be sold in an open and transparent manner without negative impact on world gold prices and the proceeds used to cancel the debts of developing countries – provided shareholders agree. It is now therefore simply a question of political will.

World leaders, all of whom have signed-up to the Millennium Development Goals need to weigh up the human costs of their inaction. 2.2 million children die each year in developing countries because they are not immunised.⁵ 815 million people in the developing world are undernourished.⁶ Debt repayments sap desperately needed resources from the poorest countries. These resources could be better spent on the health, education and rural infrastructure of impoverished nations. In Mali, for example, one in four children dies before their fifth birthday. Mali spends over US\$ 1

⁴ SDR 94 million = US\$ 141 million (assumes SDR 1 = US\$ 1.5)

⁵ State of the World's Children, UNICEF 2005

⁶ Bread for the World, 2004

million a week on debt repayments – money that could instead be used to increase spending on health by 66% and immediately save thousands of lives.⁷

Debt Cancellation is Good for Development

It is widely recognised that debt relief is a highly effective resource transfer mechanism: debt relief can provide a much greater degree of predictability than other sources of development financing which allows governments to make the long-term investments necessary to achieve the MDGs. It supports country ownership since it allows countries to spend their own resources on the priorities they themselves have identified. It is non-cyclical, i.e. unlike aid which can decrease in times of economic downturn, debt relief is neutral. It also has low transaction costs and poses less administrative burden on recipient governments.

Research has also shown that partial debt relief, where granted, has been well spent and has proven to be a highly effective tool for poverty reduction.

In Burkina Faso, HIPC debt relief has been spent on education (39%), health (33%) and rural road (28%). In Benin, 43% of HIPC savings went to education in 2002. In Malawi, HIPC resources have helped to train 3600 new teachers a year.⁸ In Bolivia, 10,128 new items of school equipment were financed with resources freed by HIPC debt cancellation in 2002.⁹ The IMF itself also says that "*further debt relief holds out the promise of easing concerns about debt sustainability while attracting additional financing needed to reach the MDGs*".¹⁰ But debt relief should not be seen in isolation of other measures to support poverty reduction and development. Research has shown that most low-income countries will require full debt cancellation coupled with significant increases in official development aid if they are to have any hope of reaching the internationally agreed MDGs by 2015.

The Africa Commission reports that

- In Benin, 54% of the money saved through debt relief has been spent on health including rural primary health care and HIV programmes.
- In Tanzania, debt relief enabled the government to abolish primary school fees, leading to a 66% increase in attendance.
- After Mozambique was granted debt relief, it was able to offer all children free immunisation.
- In Uganda, debt relief led to 2.2 million people gaining access to clean water.¹¹

⁷ Oxfam International, 2004

⁸ Taken from Hinchcliffe K, "Notes on the Impact of the HIPC Initiative on Education and Health Public Expenditure in African Countries".

⁹ Estrategia de la Educación Boliviana, 2004

¹⁰ Further Debt Relief for Low Income Countries – Key Issues and Preliminary Considerations, IMF, March 2005

¹¹ Africa Commission Report, March 2005

Bold Action

Debt cancellation represents one step towards achievement of the MDGs by 2015. The developed world's obligations as enshrined in Goal 8 of the MDGs include the commitment to "*deal comprehensively with developing country debt problems through national and international measures to make debt sustainable in the long-term*". If world leaders support the MDGs, as they claim, they need to live up to their promises of bold action. They need to turn rhetoric into reality and do the deal on debt. Progress has been too slow. HIPC Initiative debt relief, combined with other forms of debt relief have so far relieved low-income countries of around US\$ 46 billion of their debts of which HIPC debt relief accounts for US\$ 29 billion. But this remains less than 10% of the total debts owed by low-income countries to rich nations and to multilateral institutions. Moreover, so far, only 17 countries to date (out of 42) have benefited from the full debt relief available via the HIPC Initiative. The international community has provided too little, too late to too few countries and with onerous conditions attached.

An agreement on gold sales would represent the first step towards full cancellation of the debts of the world's impoverished countries. Gold sales have the potential to raise around US\$ 35 billion towards debt cancellation. We urge governments to take bold steps and to support the sale of these vast undervalued reserves

In particular, we call on governments to energetically support the sale of all of the IMF's gold reserves in the framework of the Central Bank Gold Agreement to fund further debt relief for impoverished nations. We propose that open and transparent sales be conducted over a period of 20 years. Resources from these gold sales should be used to support the cancellation of debts of all those countries which are unable to meet MDGs by 2015 and the proceeds of these sales should be used not just to cover debts owed to the IMF, but debt to other multilateral development banks as well.

Leaders' commitments

It seemed that the world had finally taken note when at the turn of the new century world leaders came together to make a grand declaration:

"We will spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want."¹²

It is now five years into the new Millennium and the grand words are in danger of ending up being little more than empty rhetoric. However, as seen in the box overleaf, a growing number of world leaders say they have embraced the call for debt cancellation, and the world is watching to see whether they will deliver.

¹² United Nations Millennium Declaration 2000: <http://www.un.org/millennium/summit.htm>

"No African country committed to poverty reduction and achieving the Millennium Development Goals should have to choose between servicing its debts and funding schools and healthcare." **UK Chancellor of the Exchequer, Gordon Brown, March 2005**

"To break the ongoing "lend-and-forgive" cycle, grants and debt relief must be significantly increased." **US Treasury Secretary Snow, Development Committee Statement for the Record, 2 October 2004**

"While we've seen recent progress in providing debt relief to countries working to overcome poverty, the debt burdens for these countries are still far too high. [...] Debt relief [...] is a high concern for Canadians." **Canadian Finance Minister Ralph Goodale, February 2005**

"The MDGs are in reality modest compared to real needs. The Goals will remain out of reach if we don't take the necessary steps." **President Jacques Chirac of France, World Economic Forum, Davos Switzerland, January 2005**

"Total debt cancellation is a politically acceptable objective and one that we would support". [...] We continue to see great merit in a much more ambitious approach to dealing with the HIPC debt burden.[...] We must work together to ensure that the debt burden cannot frustrate our common goal of poverty reduction". **Irish Prime Minister Bertie Ahearn in a speech to the World Bank, 13 March 2003**

"Debt relief is [...] urgent. It is in many ways, a precondition for the poorest countries to make progress in their fight against poverty. We have to ask, however, why progress in resolving the debt problem is still so slow. Why so many hesitations? Why the difficulty in providing the funds needed even for the already agreed initiatives? It is the poor who pay the cost of indecision and delay." **Late Pope John Paul II, The Vatican, 23 September 1999**

"Overcoming poverty is not a question of charity. It is the protection of a fundamental human right. [...] The steps that are needed from the developed nations are clear. The first is trade justice.[...] The second is an end to the debt crisis". **Nelson Mandela endorses Make Poverty History Campaign, London 3 February 2005**

"We would probably want to ask that if we could speed up debt relief and ensure that there is deeper debt relief for African countries, that the IMF sales get precedence over some of the other countries sales". **Trevor Manuel, South Africa Finance Minister - speaking on the sidelines of a two-day meeting of Britain's Commission for Africa, March 2005.**

"I have been assured that selling [IMF] gold would not drastically affect the price of gold in the world market. So I'm in favour of it. Not as an alternative but as an addition to what Gordon Brown has suggested in terms of the IFF funding for development in our countries." **President Benjamin Mkapa of Tanzania in response to a question about use of IMF gold at Jubilee Debt Campaign conference, 26 February 2005.**

No More Excuses: Do the Deal!

With the release of the IMF report and an emerging consensus on the feasibility of IMF gold sales for debt cancellation, rich countries have no more excuses for inaction on the issue. While the use of IMF gold is itself not enough to cancel 100% of low income country multilateral debt, it provides a large chunk of resources which can then be supplemented by additional bilateral contributions and also potentially the excess reserves of multilateral institutions such as the World Bank to fund full debt cancellation.

All major obstacles to the sale of IMF gold for funding multilateral debt cancellation for the IMF and World Bank have now been removed and rich countries have no excuses not to act immediately to sell IMF gold to save millions of lives.

There is now a remarkable window of opportunity to mobilise what can be considered the single largest amount of additional resources for development. These sales, as the institution itself has come to recognise, are not at all imprudent in terms of financial soundness if conducted properly.

Research has also pointed out that gold constitutes only 2% of the IMF's total available resources and more importantly that there is a significant opportunity cost to holding the gold in its present form. Calculations show that by holding gold, the IMF has lost about US\$ 30 billion in potential revenue since 1979-1980 when Fund staff members first suggested that gold be sold.¹³

Debt cancellation would wipe the slate clean for the world's impoverished nations. It represents one essential and concrete step to help countries get back on track to reach the MDGs, although it is by no means enough. Research has shown that most low-income countries will require full debt cancellation coupled with significant additional resources if they are to have any hope of reaching the internationally agreed MDGs by 2015. This is especially the case for the countries of Sub-Saharan Africa.

Now is simply the time to hold politicians in the rich world accountable for their words and promises. It is now up to world leaders to take a bold stance on this issue. Failure to act, once again, will have the severest of consequences for large parts of the developing world.

¹³ See for example: "The IMF, Gold Sales and Multilateral Debt Cancellation", Sony Kapoor for Debt and Development Coalition Ireland, September 2004: <http://www.debtireland.org/> ; and "Paying for Multilateral Debt Cancellation: Current Proposals Explained", Sony Kapoor for EURODAD, January 2005: <http://www.eurodad.org/articles/default.aspx?id=576> .