



Position Paper
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Leveraging IMF Gold Sales for the Benefit of Low Income Countries

At the G-20 meeting in early April, global leaders committed significant sums to developing nations in response to the global financial crisis. Most of these funds are to be channeled through the International Monetary Fund (IMF), and the overwhelming majority of these resources will be devoted to emerging markets and middle-income countries. The G-20 have also committed up to \$50 billion in finance for low-income countries through an increased allocation of IMF Special Drawing Rights (SDRs), additional lending from the World Bank, trade finance support, and a commitment to provide up to \$6 billion in additional IMF concessional lending by earmarking a small portion of IMF gold sales for low-income countries.

For all of these commitments, many details still need to be worked out, including how the funds will be delivered and on what terms. But we do know that nearly all of the assistance pledged will come in the form of loans, rather than grants.

More details will be discussed and agreed upon, at the IMF/World Bank spring meetings on April 25-26. In addition, the US Congress must authorize and appropriate any additional funds for the IMF. The need for Congressional involvement creates an opportunity to ensure that resources for the poorest countries come on the most effective terms possible for fighting poverty, and are provided with adequate transparency and accountability. This short briefing paper focuses on the generation of additional resources for poor countries through the proposed sale of some of the IMF's vast gold reserves.

IMF Gold Sales: Where the Proposal Stands Today

The G-20 communique on gold sales¹ is vague. But we understand it to propose that the IMF allocate \$1 billion of the proceeds from gold sales to the Poverty Reduction and Growth Facility (PRGF), thereby leveraging \$6 billion in new concessional loans. The remainder – and the majority – of the proceeds from IMF gold sales would be used to cover the IMF's administrative budget. The \$1 billion figure for low-income countries reflects the increase in the price of gold from April 2008 when the IMF's Board approved gold sales until today.

Within this general agreement, many details are up for debate and clarification ahead of the IMF/World Bank spring meetings. The G-20 still needs to work out how much, in what form, and through what mechanism proceeds from IMF gold sales would be distributed. Because IMF gold is a public good and a critical new source of finance for the poorest countries, it is important to ensure that the resources from its sale are delivered in the most effective and beneficial way possible. This memo offers practical suggestions for policymakers on how to leverage gold sales

¹ From the G-20 communique, April 2, 2009: "We have committed, consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide \$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years. We call on the IMF to come forward with concrete proposals at the Spring Meetings;"

to ensure the greatest possible benefit for low-income countries suffering from the effects of the global financial crisis.

Jubilee USA's Position on IMF Gold Sales: Key Principles

1. All or nearly all of the proceeds from IMF gold sales should be dedicated to providing support to low-income countries. When the proposal for IMF gold sales was elaborated by the Crockett commission and approved by the IMF's board, it was a different world: there was little demand for IMF loans and the IMF's income model was outdated. The sale was recommended as a way to provide resources for administrative costs the IMF could no longer cover. Today, the IMF is back in the lending business and its old lending model is again viable. Meanwhile, the level of need in poor countries is greater than ever. While the \$50 billion in commitments outlined by the G-20 helps, it's not enough: a March 2009 IMF report found that low-income countries would require \$216 billion to cover the balance of payments impact of the global crisis during 2009. Proceeds from gold sales should be dedicated to low income countries, not the IMF's administrative budget.²

2. Sell the gold outright for immediate use in poor countries, rather than investing the funds and only using the interest. The Crockett report urges the IMF to sell gold, invest the proceeds in an interest bearing account, and use only the interest generated on that account to fund its operations. This is not an appropriate model given the level of need in low income countries. The proceeds from the phased sale should be used immediately and in full for grants or to finance debt relief. If it is politically untenable to redirect all of the proceeds away from IMF administrative costs, the urgency of the crisis dictates that the proceeds should go exclusively to LICs until the third and final year of the period allotted for the gold sales.

3. Proceeds from gold sales should be used to provide assistance to poor countries which is not debt-creating, in other words assistance should come in the form of debt relief and/or grants rather than new loans. Just before the G-20 summit, an IMF report found that the crisis may push as many as 31 countries into "debt distress" including 16 Heavily Indebted Poor Countries (HIPCs) and 15 low-income countries not eligible for HIPC.³ The G-20 proposal for \$50 billion in new loans will expand the possibility of debt distress to even more countries. It is thus urgent that proceeds from gold sales be made available to LICs through a vehicle which does not create new debt.

4. Given its lack of expertise in and mandate for international development, the IMF should transfer proceeds from gold sales to IDA or the African Development Fund to provide grants or debt relief. The IMF does not have a mandate to be in the business of long-term development lending. Jubilee USA supports the phase-out of the IMF's Poverty Reduction and Growth Facility (PRGF) and the transfer of its funds to a more appropriate development mechanism. Some have proposed that the IMF could provide grants to poor countries through the PRGF. There is no precedent for the IMF providing grants; any proposal for it to do so may well

² If it were not politically possible to reach an agreement to provide all resources released by gold sales to low-income countries, an alternative approach would be to use all the additional money from the increase in the price of gold since the release of the Crockett report in January 2007. At that time, gold was trading at roughly \$500/oz. Assuming a price of \$900/oz. today, the ONE campaign has estimated that \$5 billion could be leveraged for grants or debt relief.

³ IMF, "The Implications of the Global Financial Crisis for Low-Income Countries," March 2009, p. 25.

encounter opposition from the IMF's staff and board. If this is the case, the IMF could consider transferring proceeds from the sale of IMF gold to another institution. Ideally, this would be a new fund for low-income country development such as a multi-donor commodity stabilization fund. Absent the political will to create a new institution in the short term, funds could be transferred to one of the IMF's sister institutions such as the World Bank/International Development Association (IDA) and/or the African Development Fund, both of which have a development mandate and the authority to provide grants. Such a transfer would not be impossible. Congressional Research Service IFI expert Jonathan Sanford has written, "The World Bank and IMF have essentially the same membership. If their governing boards wish to institute a gold-to-HIPC resource transfer, they can easily find ways within their basic rules to accomplish that end."⁴

5. To the extent that the IMF distributes funds to low-income countries, this must be done through mechanisms that do not require contractionary economic policies or anti-poor policy conditions. While it would be preferable for the IMF to direct proceeds from gold sales to low income countries through a more appropriate agency, if funds are channeled through IMF mechanisms these vehicles should be de-linked from requirements that countries pursue anti-poor or contractionary economic policies. In particular, conditions on funds delivered via the Exogenous Shocks Facility (ESF) or Poverty Reduction and Growth Facility (PRGF) should be limited to standard fiduciary measures to ensure that recipient countries have good public financial management, full transparency, and accountability for the funds they receive. Moreover, the transfer of any new funds to the IMF should be conditioned on a commitment from the IMF for much greater transparency.

More Detailed Scenarios for Providing Debt Relief and Grants

The easiest and most efficient way to provide the assistance countries require is to use gold sale proceeds to finance immediate cancellation of IFI debts (i.e. those claimed of low income countries (LICs) by the IMF or other multilateral creditors such as the World Bank or ADF).

1. IMF debt relief. There are three criteria or models the IMF could use in determining country eligibility for debt relief. In order to mitigate the current crisis, the provision of debt cancellation would need to be immediate and contingent on a country's track record of good public financial management, transparency, and accountability to its people, rather than on the 3-6 year gamut of IMF programs and conditions typical of HIPC eligibility. The debt owed to the IMF by low-income countries is relatively small (approximately \$1.5 billion total for IDA-only countries not eligible for HIPC) and so such cancellation would be inexpensive. IMF debt relief could be provided to LICs based on:

- **Per capita income.** In 2005, Cambodia and Tajikistan were included in the Multilateral Debt Relief Initiative (MDRI) despite their ineligibility for HIPC to ensure "equity of treatment" because their per capita incomes were below \$380. A higher per capita income level, for example the IDA-only eligibility level of \$1065, could be adopted and all IDA-only non-HIPCs could be provided with debt relief if they meet strict criteria regarding public financial management, accountability, and transparency. (This approach follows

⁴ Jonathan E. Sanford, "IMF Gold and the World Bank's Unfunded HIPC Deficit," *Development Policy Review*, 22 (1) 31-40.

the country eligibility criteria in the Jubilee Act, legislation which was passed by the House of Representatives in 2008)

- **Debt distress.** The IMF could provide debt cancellation for the 31 PRGF-eligible countries experiencing or projected to experience debt distress due to the current crisis.
- **Extended HIPC cut-off date.** The cut-off date for HIPC/MDRI eligibility could be extended from end-2004 to end-2008, with current HIPCs receiving cancellation of IMF loans made since 2004.

2. Transfer of IMF funds to IDA/ADF to provide debt cancellation or grants. The IMF could transfer the proceeds from gold sales to IDA and the ADF which could utilize the funds to partially finance expanded debt cancellation following one of the above listed eligibility models. They could also use proceeds to finance grants through their current grant-making allocation frameworks. For funds devoted to grants, the allocation mechanisms of IDA and the ADF should be reformed such that selectivity criteria that require adherence to harmful economic policies are eliminated.