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The Debt of the Poorest Nations: A Gold Mine for Development Aid

by

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No one with a heart or with a brain can dispute that total cancellation of the debt of the world's poorest nations is a given in our collective progress toward global economic balance. All that debt forgiveness really needs is an eraser. Humanity aside, the money is long gone, the debt is uncollectible and rich lenders and international financial institutions (IFIs) must move on from denial to a new life as donors.

Many officials who are foremost in the campaign for forgiveness don't want to cancel and don't want to erase. They insist instead that rich countries take over the payment schedules, year by year and poor country by poor country, on what both borrowers and lenders already know is defaulted debt. This will compel an automatic stream of new development funds to, first, fill the deep holes in IFI balance sheets and, then, pour out as unauthorized new aid.

Contrary to the plaintive appeals of the NGOs, real debt forgiveness was granted without fanfare and multilateral resources were irreversibly lost long ago. For decades, not a single African farmer has labored to pay of a burdensome debt. And for decades, the multilateral agencies have played a shell game with what they privately acknowledged were worthless developing nation loans by recirculating funding on fantasy balance sheets.

But debt forgiveness has magnetism and is more attractive, by far, than foreign aid. It raises the feel-good factor. It writes off guilt. It has political clout. It brings sales appeal that can be exploited.

Although the present HIPC (Heavily Indebted Poor Country) Initiative has nothing to do with debt forgiveness and everything to do with more aid, it has been annexed as a false front for a massive increase in development funding without the hard questions that public scrutiny would demand.

Although forgiveness of HIPC debt has no cost for the international financial institutions, it has been hijacked to force rich government compensation for the losses of past bad lending. Topping up the IFIs is the price of a ceremonial signature on the dotted line of cancellation.

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Although debt forgiveness should stand alone, it has been tied tight to poverty reduction for all the wrong reasons. More aid has been annexed but future efforts will be padlocked to the pattern of past failures while deserving nations are slighted and effectiveness is sacrificed. Another debt burden will pile up for the next generation to shoulder.

The Initiative is mired down while its elastic wish list expands. Now the call is for total relief (the halfway measures set forth 5 years ago have failed) and forgiveness will be extended to all poor countries, not just the most heavily indebted. The sums required, once estimated at a modest US$ 50 billion for the HIPCs, could skyrocket to more than US$ 400 billion for all poor countries extracted entirely from rich country taxpayers.

For a fast infusion of cash, while sidestepping the need for budgetary appropriation, covetous eyes are turning to the US$ 40 billion gain on member nation gold reserves deposited in the IMF vaults. More than one quarter of these are the scarce resources of developing countries with more than their fair share of the world’s poor.

The ingots have been left behind in the Fund’s basement as the international financial system has moved on but this does not justify pulling up an armored aid truck to the rear-loading platform. The gold and the gain should return to member nations, to keep or to sell, to invest in their own economies or to donate as they decide.

Rich countries could dedicate their gain to establish a new US$ 30 billion endowment at the World Bank with the critical mass to displace loans with grants for the poorest nations and make exacting performance the standard.

Debt cancellation must be complete. But those who seek instead an explosion of aid, should call it by name, add it up in the correct columns and not try to float it through side channels on a flood of tears. Giving deserves more respect. Before dusting off our collective wallets, it is time to conduct a forensic accounting of what has happened and to explore more effective means to achieve what should happen next--a fresh start not only for the poorest but for development aid *in toto*.

A HIPC Initiative History: Moving Targets; A Ballooning Price-Tag

"The World Bank and the International Monetary Fund …
have become Africa's fairy godparents."
Moeletsi Mbeke, Deputy Chairman,
South African Institute of International Affairs

HIPC is an umbrella for a grouping of 38 of the world's poorest economies, 85% concentrated in Sub-Saharan Africa. By every measure, the vast majority of their 525 million citizens have grown poorer each time the census has been taken. Average per capita real income of US$375 in 2003 has fallen more than 25% since 1980.

Total external nominal HIPC government debt amounts to US$ 144 billion, 94% in official loans. Bilateral obligations to rich countries are US$ 57 billion while US$ 79 billion is owed to the multilateral agencies. IDA, the World Bank's concessional arm, has the highest concentration--US$ 46 billion or one-third of the HIPC total. (See Table I.)

After the first 1996 HIPC Debt Initiative faltered (in three years only two nations had met the rigorous macroeconomic qualifications), an Enhanced Initiative was launched in 1999. The rhetoric was grand; President Clinton, Pope John Paul and Bishop Tutu weighed in; the message from the NGOs was "pay up or pay at the ballot box"; and objectives were expanded to package debt forgiveness with poverty reduction, another name for aid.

But the real intent of planners was more modest than the fireworks suggested--not total relief but bringing debt down to levels countries could manage on their own. Estimates of contributions from the rich relied on blue-sky assumptions of unrealistic 6-10% annual growth rates over the next 20 years for economies that had stagnated for decades.

Failure was foreseen by many, including the US government General Accounting Office whose 2000 report predicted a return to unpayable burdens in 15 years.[2] By year-end 2000, 22 countries had qualified, 10 of these rushed through in the last three weeks before the Millennium deadline under what even the IMF and World Bank describe as "relaxed standards". Halfway measures have not succeeded. Poverty has continued to grow: a look at the per capita real income in the 38 HIPCs from 1998 to 2003 shows 24 countries in decline and 8 more at a standstill. (See Table I.)

[2] Debt Relief Initiative for Poor Countries Faces Challenges. U.S. General Accounting Office. June 2000.

Table I

The HIPCs: Debt and Income Decline

(Nominal debt in millions of US dollars as of 12/31/2003; GNI per capita in 2003 US dollars)

	Total External Debt Outstanding	Debt Outstanding: Official Creditors	Debt Outstanding: Bilateral Creditors	Debt Outstanding: Multilateral Creditors	GNI per capita 1998 (2003 $)	GNI per capita 2003
Africa						
Benin	$1,799	$1,796	$429	$1,367	$417	$440
Burkina Faso	1,776	1,776	191	1,585	253	300
Burundi	1,262	1,251	160	1,091	154	90
Cameroon	8,229	8,144	6,222	1,922	670	630
Central African Republic	953	919	218	702	319	260
Chad	1,477	1,463	133	1,331	253	240
Comoros	260	260	52	208	450	450
Congo, Dem. Rep.	10,781	10,409	6,909	3,500	99	100
Congo, Rep.	4,454	3,619	2,965	654	527	650
Côte d'Ivoire	10,126	7,766	4,052	3,715	857	660
Ethiopia	7,064	6,992	2,442	4,549	110	90
Gambia, The	596	595	109	486	374	270
Ghana	7,257	6,746	1,634	5,111	428	320
Guinea	3,290	3,262	1,253	2,009	571	430
Guinea-Bissau	733	733	276	457	176	140
Liberia	1,459	1,255	488	767	121	110
Madagascar	4,795	4,686	2,018	2,668	286	290
Malawi	3,062	3,052	422	2,630	242	160
Mali	3,079	3,079	839	2,240	275	290
Mauritania	2,188	2,181	762	1,419	461	400
Mozambique	3,201	3,199	1,172	2,027	220	210
Niger	2,031	2,031	465	1,566	220	200
Rwanda	1,510	1,508	147	1,361	253	220
São Tomé and Principe	329	329	126	203	297	300
Senegal	4,223	4,198	1,376	2,822	571	540
Sierra Leone	1,589	1,576	586	990	165	150
Somalia	2,103	2,066	1,129	938	n/a[1]	n/a[1]
Sudan	10,168	8,437	5,737	2,700	341	460
Tanzania	6,670	6,574	1,874	4,700	253	300
Togo	1,531	1,531	580	951	363	310
Uganda	4,405	4,388	370	4,018	341	250
Zambia	5,902	5,872	1,950	3,922	363	380
Latin America						
Bolivia	4,537	4,512	208	4,305	1,110	900
Guyana	1,318	1,265	393	872	967	900
Honduras	4,766	4,645	1,552	3,093	813	970
Nicaragua	6,111	5,760	2,845	2,915	406	740
Asia						
Lao PDR	2,845	2,845	1,388	1,457	341	340
Myanmar	5,857	4,979	3,672	1,308	n/a[1]	n/a[1]
Total	**$143,736**	**$135,697**	**$57,142**	**$78,554**	**$391**	**$375**

[1]Data not available. Per capita income of Somalia is estimated to have declined. Per capita income of Myanmar is estimated to have remained constant.

Sources: World Bank Global Development Finance; World Bank World Development Indicators

HIPC 3 is underway but the development community avoids the title along with any precision on the price-tag. Talk of debt relief now seamlessly blends into the vast expanse of the Millennium Development Goals that demand an annual tithe of 0.7% of national income from every rich nation. The duties of debt relief have expanded once again, now not just an end to poverty but a means to jump start growth.

Many now believe that total cancellation of debt is essential, as the Meltzer Commission concluded in its March 2000 report to the US Congress.[3] But others oppose cancellation and endorse a mechanics of generosity that raises the ante with a "pay-as-you-go" promise by the developed nations to assume the schedule of annual debt payments, country by country, including interest. This increases the nominal amount of "relief" to extract more aid--$130 for every $100 of nominal debt and $50 of effective debt in present value.[4] Now UK Chancellor Gordon Brown proposes to extend the debt amnesty to the entire roster of poor countries in fairness to those that have managed their finances prudently.

Costs can now be calculated honestly. Rich country taxpayers will confront more than US$ 400 billion in new aid masquerading as debt relief, four times the budget estimates presented to industrialized legislatures at the Millennium.

The HIPC Debt: A Phantom Burden

> "The burden of decades old debt… today prevents the poorest countries from ever escaping poverty. [M]any developing countries…are still choosing between servicing their debts and making investments in health, education and infrastructure".
>
> Gordon Brown, British Chancellor of the Exchequer

The heavy burden that the world poor must shoulder and the valuable resources diverted from constructive ends to repayment of debt is the central argument in every plea for forgiveness. Yet the debt of the HIPC nations was relieved quietly without announcement long before the Initiative began.

Why do leading finance ministers and development economists, together with their considerable staffs, continue to conceal the economic reality? There is a reason. What they seek is a massive increase in aid--set on automatic pilot and shielded from legislative debate.

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[3] Report of the International Financial Institution Advisory Commission. U.S. Congress. March 2000.

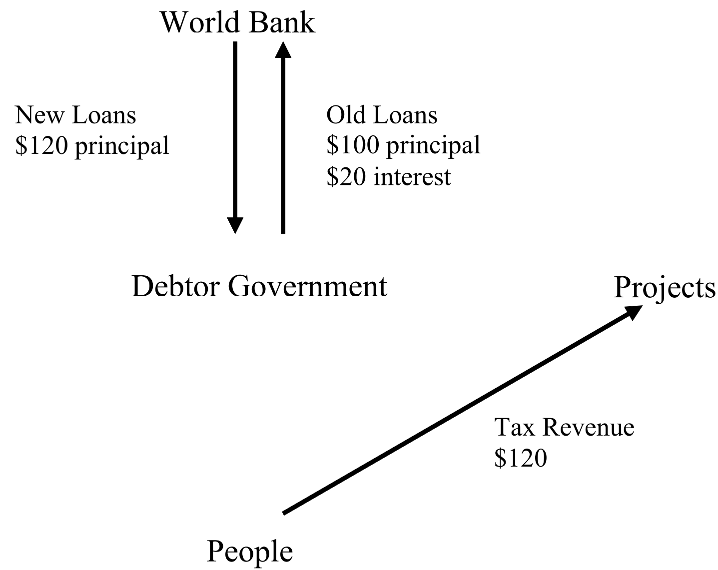
[4] A $ 100 nominal amount 30-year loan with an interest rate of 1% has a present value of $ 48 at a 4% discount rate. The sum of all the scheduled payments equals $ 130: $100 of principal plus $30 of interest (30 years of $1 per year).

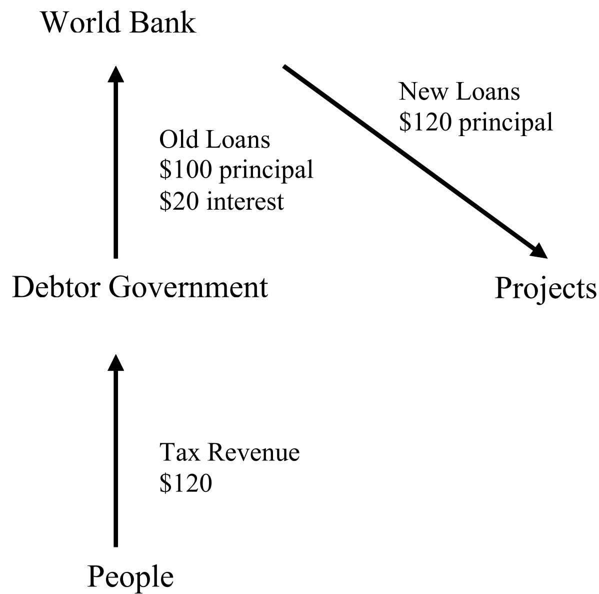
It was the NGOs who exposed the real arithmetic when they refused to ring the bells of Jubilee 2000 until a promise was exacted, not just to "drop the debt" but to wrap up each certificate of cancellation with a package of new loans for anti-poverty spending. They recognized that the formality of debt forgiveness was cosmetic and would not bring a real transfer of financial resources.

It had long been clear to the international lending agencies and deliberately hidden from public view that the multi-billion debt of the poorest economies would never be repaid or even serviced. For more than two decades, a system of "defensive lending" has miraculously matched the dates and amounts of repayment and interest schedules to disbursements under "new" loans to create a perpetual rollover of defaulted debt obligations. Adding interest compounds the loans as well as the problem. Claims have migrated within multilateral agencies and between agencies until almost all these worthless assets have been converted into long-term near-zero interest rate loans held by the concessional arms of the IFIs. (See Diagram I.)

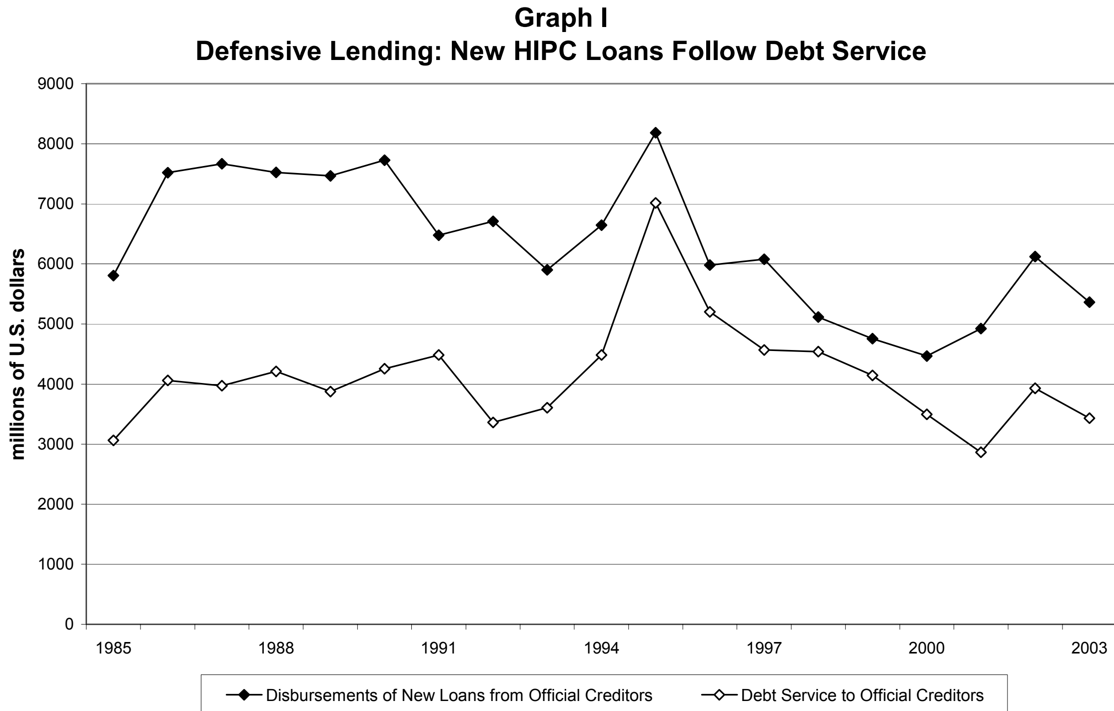
Diagram I

Debt Forgiveness Concealed





Only a name separates rotating defaulted loans in perpetuity from the finality of debt cancellation. No real resources have been transferred out of the poorest debtor economies to the multilaterals because the debt has not been effectively repaid. Year by year, every poor country outflow has been offset by a predictable and assured balancing inflow. The path of fresh lending has followed precisely the pattern of debt payments. (See Graph I.)



The HIPC debt burden is phantom and imposes no demands on impoverished economies. For the last 20 years, each and every HIPC nation, regardless of corruption, waste and failure to comply with conditions, has benefited from an annual net inflow of official funds. For borrowers, the outcome is the same, whether old loans are cancelled or fictitious new loans are extended to provision old loan payment schedules. But governments of poor countries have been quick to capitalize on the artificial HIPC link of debt relief to poverty reduction with its promise of more funds.

Additionality: A Formula for Failure

> "Debt relief has to be seen as one strategy for creating additional resources."
>
> Oxfam International

The unmanageable debt of poor African states, a function of corrupt regimes, of economic environments hostile to growth and of bad aid policy, has been 40 years in the making.

In an effort to use debt relief as a springboard to more aid, a 1999 HIPC "additionality" rule forces a perpetuation of the past. It requires that, although the debt has been relieved and the gross outflows halted, the gross inflows into each and every bankrupt economy must remain constant. In an effort to mask a major increase in aid, past failure has become the faulty allocation rule for future aid. Non-HIPC poor nations have suffered from the additionality constraint, their share in official resource transfers has fallen 63% to just 12% of total giving.

All of the resources gathered under the forgiveness banner have been constrained to benefit the same failed countries whether or not they now have the capability to channel funding to constructive ends. The hard-won criteria that demand effectiveness of aid and monitored performance are by-passed. Many deserving nations that have made praiseworthy efforts to grow are deprived. Rich country taxpayers that underwrite the funds are shortchanged. Future aid flows must be decisively decoupled from debt forgiveness.

The International Financial Institutions: Unreal Assets; Fantasy Balance Sheets

> "Time and again the [World] Bank was faced with a difficult choice: it could put in…money to forestall non-accrual, but at the cost of appearing to underwrite regimes that were not reform-minded. Between 1980 and 1994, sub-Saharan Africa's debt grew from $ 58 billion to $ 165 billion …with more than a third …due to interest [capitalization]."
>
> Devesh Kapur, Brookings Institution

The international financial institutions always sit front and center on the podium in the campaign for debt relief but when it comes to sharing in the hardship, all they can offer is weak excuses. They have long been diminished by failure in Africa and now want to be made whole. Refusing to write off worthless assets, they are blackmailing industrialized nations to step in as guarantors of their defaulted loans.

A past Managing Director of the IMF cried out that formal recognition of the bad loans of the IFIs would jeopardize the stability of the world financial system. A President of the World Bank threatened that it would destroy the Bank's credibility in the global capital markets along with its enviable AAA rating and raise the borrowing cost for the entire

developing country spectrum. Everyone concurred that it would dam up the flow of aid. In reality, there would be no impact on the resources of the institutions or on their ability to fulfill their mandates.

There are now US$ 71 billion of HIPC debt on the ledgers of the major IFIs: US$ 47 billion owed to the World Bank; US$ 7 billion to the IMF and US$ 17 billion to the regional Inter-American, Asian and African Development Banks. Low interest rates (0.5-2%) on most of these loans almost halve their effective present value. For years, these defaulted loans have been carried as assets on fantasy balance sheets but they have only a fictitious worth. They are matched by hidden liabilities to supply new loans to cover all debt payments, both principal and interest, in perpetuity. Bank resources have been locked up and their capacities to act diminished in this merry-go-round of rollovers.

To give credence to IFI threats of financial doom, if balance sheets reflect the facts, is to ignore the structure of the institutions, all of them neatly segmented into two entities. There is a "bank" that serves developing economies that can afford market interest rates and there is a "fund" that focuses on the very poor with minimal capacity to pay. Losses at the "fund" can never endanger the solidity of the "bank".

The "bank" segment (for example, the International Bank for Reconstruction and Development (IBRD) at the World Bank) borrows in the capital markets and relends to developing governments. It is the callable capital of industrialized members that provides the guarantee for the "banks'" bond issues and their AAA ratings. Because bylaws sequester callable capital to repay bondholders and borrowings are always held below the level of the callable capital of the industrialized members, credibility is unshakeable. The quality of the loan portfolio is irrelevant to the financial markets.

The "fund" segment (for example, the International Development Association (IDA) at the World Bank) gathers contributions from rich countries and redistributes resources to poor members through 30-40 year loans at virtually non-existent 0.5-2% interest. It is the "fund" arms of the IFIs that hold 94% of the HIPC loans. Because they are 100% equity-financed and do not borrow, their ability to deliver aid is not diminished when worthless assets are formally acknowledged.[5] (See Table II.)

[5] The IMF does not, at present, borrow in the capital markets. The IMF's "bank" is the General Resources Account that borrows from its members and relends the proceeds. The IMF's "fund" is composed of a series of trusts and special lending facilities including the PRGF and SDA.

Table II

HIPC Debt to the Major Multilaterals

(Nominal amount in millions of US dollars, as of most recent financial reports)

	IMF: GRA[1]	IMF: SDA/PRGF Trust Funds[1]	IBRD[2]	IDA[2]	Regional Bank[3]	Regional Fund[3]	**Total**
Africa							
Benin	$0	$63	$0	$729	$0	$354	$1,145
Burkina Faso	0	112	0	891	0	395	1,398
Burundi	0	40	0	733	3	216	992
Cameroon	0	326	131	1,024	126	208	1,815
Central African Republic	8	32	0	432	4	162	638
Chad	0	94	33	790	0	344	1,261
Comoros	0	0	0	112	10	46	168
Congo, Dem. Rep. of the	0	801	0	1,861	533	237	3,432
Congo, Rep. of	8	18	0	246	122	12	406
Côte d'Ivoire	0	305	444	1,789	560	264	3,363
Ethiopia	0	179	0	3,257	105	926	4,467
Gambia, The	0	24	0	228	0	169	421
Ghana	0	454	3	3,956	56	489	4,958
Guinea	0	119	0	1,214	44	303	1,681
Guinea-Bissau	0	15	0	284	0	141	440
Liberia	305	35	151	107	62	24	684
Madagascar	0	219	0	2,027	0	390	2,636
Malawi	26	64	0	1,950	14	424	2,478
Mali	0	142	0	1,342	0	561	2,044
Mauritania	0	85	0	645	60	259	1,049
Mozambique	0	192	0	1,274	0	506	1,971
Niger	0	130	0	1,007	0	245	1,382
Rwanda	0	90	0	929	0	280	1,299
São Tomé and Principe	0	3	0	73	0	108	183
Senegal	0	189	0	1,873	87	379	2,527
Sierra Leone	0	192	0	540	0	210	941
Somalia	147	23	0	429	6	99	704
Sudan	488	90	0	1,255	86	267	2,186
Tanzania	0	414	2	3,527	8	681	4,632
Togo	0	23	0	682	0	131	836
Uganda	0	188	0	3,081	4	513	3,786
Zambia	0	872	0	2,430	59	318	3,679
Total Africa	**$983**	**$5,533**	**$764**	**$40,717**	**$1,950**	**$9,657**	**$59,604**
Latin America							
Bolivia	155	146	0	1,598	366	824	3,089
Guyana	0	85	0	233	12	371	701
Honduras	0	191	77	1,151	151	1,250	2,820
Nicaragua	0	243	0	1,074	108	845	2,270
Total Latin America	**$155**	**$664**	**$77**	**$4,056**	**$637**	**$3,290**	**$8,879**
Asia							
Lao PDR	0	36	0	579	0	869	1,484
Myanmar	0	0	0	762	0	515	1,277
Total Asia	**$0**	**$36**	**$0**	**$1,341**	**$0**	**$1,384**	**$2,761**
HIPC Total	**$1,138**	**$6,234**	**$841**	**$46,114**	**$2,587**	**$14,331**	**$71,244**

[1]As of 1/31/05; SDR1 = US$1.52049.
[2]As of 6/30/04
[3]Inter-American Development Bank, Asian Development Bank, and African Development Bank data (UA1 = US$1.55301) as of 12/31/04.

Sources: IMF, World Bank, Inter-American Development Bank, Asian Development Bank, African Development Bank financial reports.

Although IDA, the "fund" arm of the World Bank, lists total development resources at US$ 128 billion, more than one-third of this apparent stockpile, or US$ 46 billion, has long been locked away in the rollover machine of defaulted HIPC loans. Effective

resources are US$ 82 billion and will remain so, whether or not bad loans are written off and resources listed at real levels. There is no financial cost to debt cancellation.

Even if failed debt had been recognized in a timely manner, “bank” resources were at the ready. For the “bank” arms of the IFIs (with the exception of the African Development Bank), the amounts involved in the cancellation of a collective US$4 billion HIPC debt are negligible in relation to their balance sheets: 3% to 7% of provisions for loan losses and reserves and less than 0.3% of effective capital.

The value of all HIPC loans held in the General Resources Account of the IMF is US$1 billion in comparison to the US$ 15 billion of provisions for loan losses and reserves. At the IBRD of the World Bank, total HIPC loans are less than US$ 1 billion in comparison to US$ 27 billion of provisions for loan losses and reserves. Even the troubled African Development Bank maintains provisions for loan losses and reserves far in excess of its US$ 2 billion HIPC loans that reach 10% of the Bank’s effective capital. (See Table III and Charts I and II.)

Table III

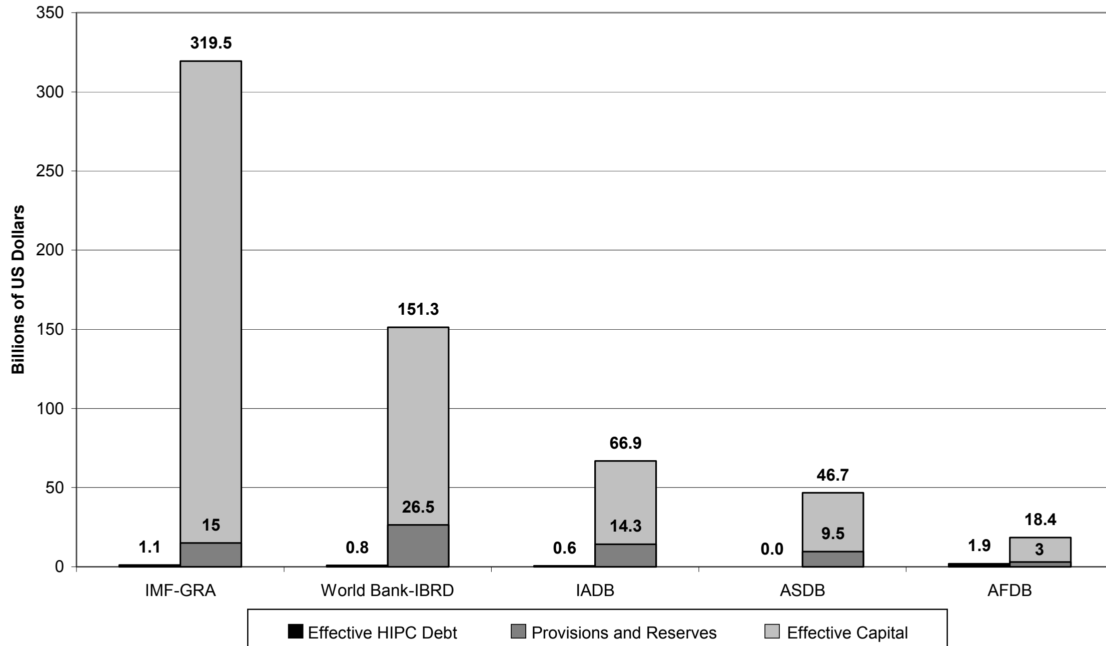
The IFIs: HIPC Debt versus Capital Base

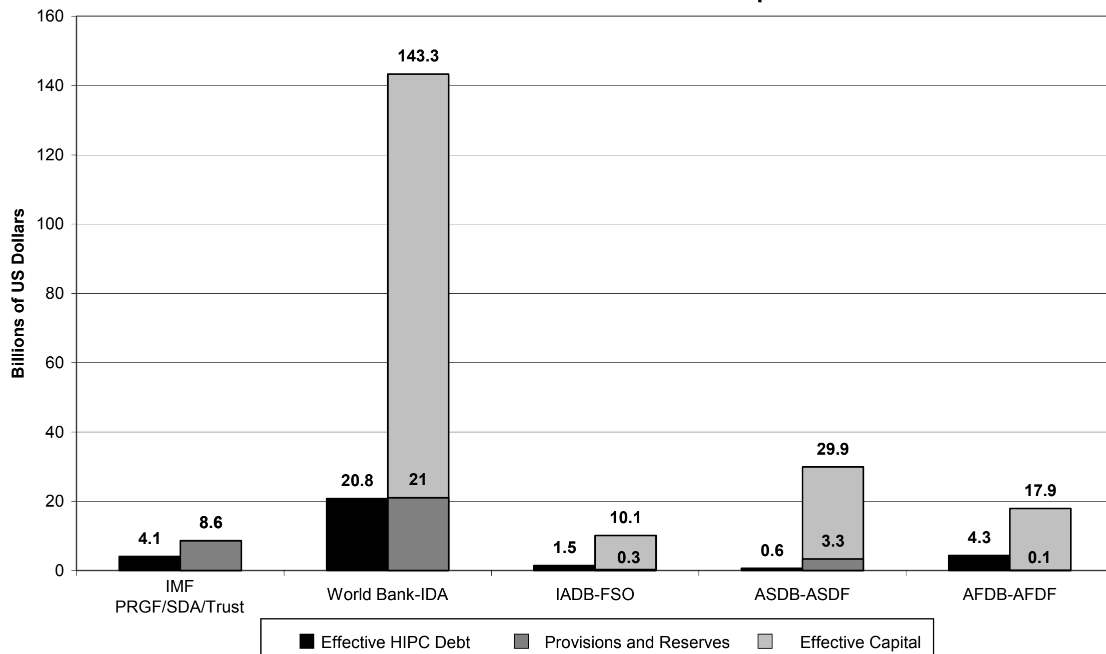
(Billions of US dollars)

	Effective HIPC Debt[1]	Provisions for Loan Losses	Reserves	Paid-In Capital	Callable Capital Non-Borrowing Members	Borrowing by IMF/Bank	**Total Effective Capital**
IMF[2]							
"Bank"	$1.1	$2.4	$12.6	$252.8	$51.7	--	$319.5
"Fund"	4.1	--	8.6	--	--	--	8.6
World Bank[3]							
"Bank"	0.8	3.5	23.0	11.5	113.3	103.3	151.3
"Fund"	20.8	10.8	10.2	122.3	--	--	143.3
IADB[4]							
"Bank"	0.6	0.1	14.2	4.3	48.3	45.1	66.9
"Fund"	1.5	0.0	0.3	9.8	0.0	--	10.1
ASDB[4]							
"Bank"	0.0	0.2	9.3	3.7	33.5	23.2	46.7
"Fund"	0.6	0.0	3.3	26.6	--	--	29.9
AFDB[4]							
"Bank"	1.9	0.7	2.3	3.2	12.2	9.1	18.4
"Fund"	4.3	0.0	0.1	17.8	--	--	17.9

[1]Effective debt equals net present value of payment obligations.
[2]As of 1/31/05; SDR1 = US$1.52049.
[3]As of 6/30/04.
[4]As of 12/31/04; African Development Bank: UA1 = SDR1 = US$1.55301.

Sources: IMF, World Bank, Inter-American Development Bank, Asian Development Bank, African Development Bank financial reports





Sources: IMF, World Bank, Inter-American Development Bank, Asian Development Bank, African Development Bank Financial Reports

The IFIs boast that there has never been a loss, never a restructuring and never a write-off to blemish their long history, even in the legendarily overvalued loan portfolio of the African Development Bank. It is the reputational cost to the IFIs of admitting failure that is at stake. This should no longer be permitted to cloud the facts of HIPC history nor to extort new funding to rush out and lend again.

The Great IMF Gold Heist: Giving Away Other People's Money

> "The IMF can mine the gold profits only by drilling taxpayers."
> Jim Saxton, Chairman of the
> Joint Economic Committee of the US Congress

A movement is underway to dip into the international gold reserves held in IMF vaults to pay what is posited as the multilateral agencies share of debt forgiveness. Translation: compensate them for bad loans and failed policies.

There are 103.4 million ounces of gold deposited at the IMF at the original SDR 35/oz. (US$ 52), a relic of the pre-1971 days of the gold standard when 25% of member country subscriptions were made in bullion. Current market value for this stockpile has grown eight-fold to US$ 434/oz. This translates into a collective and much-coveted unrealized gain of US$ 40 billion.

Calling it "IMF gold" seems to make this a costless non-event for world taxpayers. But the US$ 45 billion in bullion is US gold, German gold, Brazilian gold and Ghanaian gold. More than one quarter of the 128-nation stockpile is part of the scarce resources of developing countries with more than their fair share of the global poor. India, which counts more poor than all the HIPCs combined, owns over US$ 1 billion of the gold held at the IMF. (See Table IV.) Any gold sale would force developing nations to bear 25% of the cost of the aid. Neither the gold nor the gain should be expropriated for development goals. When national legislatures, including the US Congress, are asked for approval of gold sales, the purpose should be made clear. Transparent appropriation should be the only avenue to aid.

The gold reserves at the Fund have an explosive political content. Even though the total held at the IMF amounts to only 2% of global gold stocks, 10% of official holdings, and 10 months of world gold production, talk of gold sales triggers protest.[6] Home governments of mining interests, among them Australia, Canada and the United States, protect their constituencies. Germany and others oppose gold sales on principle: international reserves deposited by IMF members to ensure the stability of the global

[6] The IMF membership actually agreed to a series of gold sales in 1976-80 to provision a Trust for low interest loans to poor countries.

financial system should not be diverted to aid. The 85% membership approval needed to access the gold is next to impossible to achieve.

Table IV

The Gold at the IMF and the Gains by Country[1]

(millions of US dollars)

HIPCs

	Share of World Holdings	Value of Gain
Total	**2.703 %**	**$1,066.1**
Africa		
Benin	0.032 %	$12.6
Burkina Faso	0.032	12.6
Burundi	0.023	9.0
Cameroon	0.105	41.3
Central African Republic	0.020	7.8
Chad	0.020	7.8
Congo, Dem. Rep. of the	0.305	120.2
Congo, Rep. of	0.024	9.6
Côte d'Ivoire	0.164	64.6
Ethiopia	0.080	31.7
Ghana	0.230	90.9
Guinea	0.077	30.5
Liberia	0.038	14.9
Madagascar	0.076	29.9
Malawi	0.035	13.8
Mali	0.020	7.8
Mauritania	0.023	9.0
Niger	0.032	12.6
Rwanda	0.032	12.6
Senegal	0.050	19.7
Sierra Leone	0.073	28.7
Somalia	0.055	21.5
Sudan	0.197	77.7
Tanzania	0.099	38.9
Togo	0.032	12.6
Uganda	0.091	35.9
Zambia	0.147	58.0
Total	**2.109 %**	**$831.7**
Latin America		
Bolivia	0.139	55.0
Guyana	0.027	10.8
Honduras	0.095	37.7
Nicaragua	0.103	40.7
Total	**0.365 %**	**$144.1**
Asia		
Lao PDR	0.050	19.7
Myanmar	0.179	70.6
Total	**0.229 %**	**$90.3**

Other Developing Countries

	Share of World Holdings	Value of Gain
Total	**23.164 %**	**$9,136.5**
Argentina	1.667 %	$657.7
Brazil	1.667	657.7
India	2.463	971.6
Indonesia	0.985	388.6
Mexico	1.402	553.1
South Africa	1.213	478.3
Venezuela	1.251	493.3
Other countries	12.515	4,936.2
Total	**23.164 %**	**$9,136.5**

Industrial and Oil-Producing Countries

	Share of World Holdings	Value of Gain
Total	**74.133 %**	**$29,240.2**
Australia	1.890 %	$745.6
Belgium	2.463	971.6
Canada	4.169	1,644.2
France	5.334	2,104.0
Germany	5.313	2,095.6
Italy	3.790	1,494.7
Japan	4.548	1,793.7
Netherlands	2.653	1,046.3
Spain	1.270	501.0
Sweden	1.111	438.3
United Kingdom	9.266	3,654.9
United States	25.391	10,014.8
Other countries	6.935	2,735.4
Total	**74.133 %**	**$29,240.2**
Total value of gain		**$39,442.7**

[1]As of 1/31/05, the original subscription value of gold held at the IMF was SDR35/oz. and total holdings were 103,439,916 oz. As of 4/22/05, SDR1 = US$1.5196, generating a book value of US$53.186/oz., and the market value of gold was US$434.50/oz. Thus, as of 4/22/05, the unrealized gain on the gold held at the IMF was $381.31/oz.

Source: IMF International Financial Statistics

Opposition has forced gold diggers into sham transactions with a single benefit--they conceal who is footing the bill even though the IMF overall loses. “Off-market transactions” where nothing is transacted, are being called for once again, a repeat of a 1999 maneuver that made use of bogus sales and repurchases to establish paper profits. Amounts equal to the imaginary gain are borrowed by drawing down quota subscriptions of rich members and then invested to generate interest income that goes to provision “debt relief”. But where is the money to pay the borrowing costs?

At the end of the day, gold holdings remain untouched, IMF resources for intervention have been reduced US$ 30 for every US$ 1 of annual debt relief and costs have been transferred 50/50 to developing debtor members and industrialized donor members via

higher lending interest rates and lower rates of remuneration. Last time, this elaborate deception garnered a derisory US$ 145 million annually for forgiveness and member nations lost an identical amount. (To follow the imaginary itinerary of a single ounce of gold in off-market transactions, see Appendix.)

Restitution: Transmuting Gold into Grants

"The [gold] profits should be distributed to the member nations in proportion to their [IMF] quotas."
US Senators Ribicoff and Taft in 1975

The illiquid gold resources held captive at the IMF have as little functional relevance to the Fund's mission as lender of last resort as massive undervalued stockpiles of pork bellies and soybeans. Once back in the hands of their rightful owners, the frozen gold assets can be put to productive use.

If gold holdings were restituted to members in exchange for their original SDR 35/oz. subscription price, the exchequers of rich nations would be replenished by US$ 30 billion, developing governments would garner a windfall of US$ 10 billion and even the HIPCs would benefit by more than US$ 1 billion in profits. (See Table IV.)

Developing countries can invest their gold gains in their own economies. Rich governments could invest the equivalent of their US$ 30 billion gain on gold to create a lasting endowment at the World Bank dedicated to lifting the level of aid to the poorest nations. When this new aid is awarded in the form of performance-based grants, the estimated annual US$ 2 billion investment income can be leveraged in the capital markets to provision a circulating pool of US$ 30 billion of development projects.[7]

At the IMF, there will be an outcry even though everyone admits that gold no longer plays any role in the international financial system. Neither its balance sheet nor its capacity to intervene will be damaged by the return of gold to national treasuries. A triad of criteria is the sole determinant of the Fund's ability to perform: rich country quota subscriptions; credit risk of borrowing members; and the IMF's own borrowing capacity. To counter that the gold must stay in the Fund's basement to meet unforeseen contingencies is to deny that real access is a ponderous process and, more important, that the gold belongs to others.

It has often been argued that liquidation will disrupt the gold market and harm many of those we most want to help. The HIPCs overall will profit. Even the 14 gold producing HIPCs will receive a restitution gain that exceeds their market losses. (See Table V.)

[7] See: Grants: A Better Way to Deliver Aid; Joint Economic Committee; January 2002. The World Bank as Foundation: Development without Debt in *The Road to Prosperity*; Heritage Foundation; 2004.

Table V

Gold Restitution: Net Effect for HIPC Gold-Producing Countries

(millions of US dollars or thousands of ounces)

	Gain		Loss		
	Gain from Restitution of Gold Held at IMF[1] (a)	Average Annual Gold Production 2002-2003 (b)	Annual Loss from Decreased Gold Price[2] (c)	Net Present Value of Loss from Decreased Gold Price[3] (d)	**Net Gain** **(a)-(d)**
HIPC					
Bolivia	$55.0	390.6 oz.	$5.9	$31.5	$23.5
Burkina Faso	12.6	46.6	0.7	3.7	8.9
Congo, Dem. Rep. of the	120.2	151.1	2.3	12.3	107.9
Côte d'Ivoire	64.6	128.6	2.0	10.7	53.9
Ethiopia	31.7	159.1	2.4	12.8	18.9
Ghana	90.9	2,260.2	34.4	183.5	-92.6
Guinea	30.5	551.4	8.4	44.8	-14.3
Guyana	10.8	479.1	7.3	38.9	-28.1
Honduras	37.7	152.7	2.3	12.3	25.4
Lao PDR	19.7	83.6	1.3	6.9	12.8
Mali	7.8	1,652.6	25.1	133.9	-126.1
Nicaragua	40.7	93.2	1.4	7.5	33.2
Sudan	77.7	186.5	2.8	14.9	62.8
Tanzania	38.9	1,337.5	20.3	108.3	-69.4
Total HIPC	**$638.6**	**7,672.9 oz.**	**$116.7**	**$622.0**	**$16.6**

[1]Value of gain from restitution, from Table IV

[2]Assumptions: 10 percent decrease in the price of gold from its 4/22/05 level (i.e., from $434.50/oz to $391.05/oz), 35 percent effective tax rate.

[3]Assumption: 10 percent discount rate over an 8-year period.

Sources: Gold Fields Mineral Services Gold Survey 2004; IMF International Financial Statistics

Many governments may elect to keep their gold; all would bind themselves to an orderly schedule of auctions spread out over a 7-8 year time frame to minimize disruption. The grand total of holdings--103.4 million ounces or 3,217 metric tons amounts to less than 10 months of global gold supply that should be absorbed with minimal impact on prices.

Returning gold to where it came from is the best of outcomes for the developing world. If the IMF liquidates the gold in the marketplace, developing countries will forfeit their 25% share of the US$ 40 billion gain. If "off-market" gold transactions become the rule, they will be forced to pay 50% of the cost of aid via higher borrowing interest rates. But if gold is restituted, the funds sent home will enhance their resources. And a new endowment at the World Bank, of which the poorest countries are the sole beneficiaries, will ensure a perpetual supply of US$ 30 billion of development programs without debt.

A Fresh Start: Not Just for the Poor But for Development Aid

> "Before the election, Blair makes one of his tear-jerking appeals for love, compassion and human fellowship, and gets the anti-poverty movement off his back."
>
> George Monbiot, The Guardian

The new slogan for aid is a "fresh start" for the poorest nations--a spandex blanket that stretches yearly to cover a multitude of new goals: to date, debt relief, poverty reduction, social development and growth. But if this means aid as usual, just more of it, the 7 cents out of every $10 now demanded of rich income will be just a down-payment.

Time to unravel the tangled web. The institutions must stand up, take out their erasers, cancel the entire HIPC debt and restore reality to their finances. They must admit that more lending will only recreate the debt disaster we are now trying to resolve. The IMF must let go of the gold held captive for 30 years and let it work for the common good--but at the discretion of the rightful owners. Rich nations must underwrite more aid but in a meaningful manner: grants that attack poverty at its most basic needs, paid out only for performance; endowments that do not lend or spend but protect resources and draw upon income to leverage funds in the capital markets.

Cover-ups have had their consequences, not the least of which is the perpetuation of failure. They have delayed for generations sorely needed reform that might have led to real growth. They have diverted funding from the deserving, leaving disillusion in their wake. They have created friction costs and waste that siphon off funds. They have not fully deceived lawmakers and have aroused suspicion that has cut off desperately needed monies. They have set the worst of examples.

The IFIs pretend to some sort of diplomatic immunity from the rules. We cannot permit institutions that are the missionaries of transparency in the developing world to persist in practices that, on levels less lofty, would be punished with regulatory censure and worse. We cannot allow them to act routinely in a manner that would disqualify the poorest of nations from the benefits of aid and to make these poor nations accomplices in deception.

The vision of a fresh start for the poor will never be realized without a fresh start at the international financial institutions and a fresh start in the ways that aid is given and received.

Appendix

IMF 1999-2000 Gold Revaluation

In 1999-2000, the IMF engaged in a series of accounting maneuvers referred to as "off-market transactions" to create fictitious cash and revenue for the HIPC Initiative. The Fund simultaneously sold and repurchased 12.9 million ounces of gold with a book value of SDR 35/oz., which was its value at the time it was deposited by its members, for the prevailing market price of SDR 242/oz. An accounting profit of SDR 2.2 billion (SDR 207/oz.) was placed in a Special Disbursement Account (SDA) where the interest income would provide funding for the HIPC Initiative.

There is only one problem: "off-market transactions", or revaluations, of the gold did not create any cash. The sales and repurchases exactly matched in both price and quantity, no gold moved and no cash was generated. If no cash was generated, no interest income could be produced from the purely accounting profit. If no interest income is produced, where does the revenue for the HIPC Initiative come from?

To create the cash needed, the IMF borrowed SDR 2.2 billion from its creditor members by drawing on their quota subscriptions and placed it in the SDA. This reduced the Fund's effective resources available for intervention by this amount. The interest earned on this balance was used to create the revenue for the HIPC Initiative.

However, the IMF must pay interest to the creditor members that lent the SDR 2.2 billion. To offset the interest income diverted to the HIPC Initiative, the Fund increased the rate of charge on its loans to developing country borrowing members and reduced the rate of remuneration paid to its industrialized creditor members by equal amounts. The combined cost to the taxpayers of these nations averages US$ 145 million per annum.

The 1999-2000 "off-market" transactions were carried out with Brazil and Mexico that had payment obligations due under IMF loans. The following analysis details the transactions for 1 ounce of gold.

Step 1:
IMF sells 1 oz. of gold for SDR 242 to Brazil that has a SDR 242 repayment obligation due under an IMF loan.

Step 2:
Brazil returns 1 oz. of gold as repayment of its SDR 242 loan to the IMF. Brazil's SDR 242 loan is extinguished.[8]

[8] IMF loans take the form of a purchase of SDRs from the Fund paid for with domestic currency (Brazilian reals). Repayment of a loan takes the form of a repurchase of the domestic currency with SDRs. Mechanically, Brazil bought the ounce of gold with SDR 242 and received SDR 242 worth of Brazilian reals when it returned the ounce of gold to the IMF.

Step 3:
IMF creates an accounting profit of SDR 207 from the transactions (242 – 35 carrying value) even though no cash is received from the gold transactions.

Step 4:
IMF transfers SDR 207 from its cash holdings borrowed from creditor members into the Special Disbursement Account (SDA).

Step 5:
The SDR 207 cash in the SDA is invested and earns SDR 8 per year.

Step 6:
Interest income of SDR 8 on the SDR 207 cash balance in the SDA is disbursed to the HIPC Initiative Trust.

Step 7:
While the SDR 8 interest income on the SDR 207 cash balance in the SDA is transferred to the HIPC Trust, the IMF must still pay SDR 8 in interest on this cash balance to the creditor members that lent these funds. To offset the shortfall created by this diversion of income, the IMF raises the interest rate it charges on its loans to borrowing members and reduces the interest rate it pays on funding from creditor members by equal amounts.