Subcommittee on International Monetary Policy and Trade
Opening Remarks Submitted for the Record

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Hearing: "Implications of the G-20 Leaders Summit for Low-Income Countries and the Global Economy"

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2128 Rayburn, 10:00AM

I would like to begin by thanking Chairman Gregory Meeks and Ranking Member Gary Miller for organizing this hearing on the "Implications of the G-20 Leaders Summit for Low-Income Countries and the Global Economy."

On April 2, 2009, leaders of the G-20 group of nations met in London to discuss the global financial crisis. The leaders made commitments to work together to address the current crisis and expand access to credit for developing countries that have been severely affected by the global economic downturn.

The global financial crisis was not caused by low-income countries, but it is having a disproportionate impact on them. Many of these countries are simultaneously experiencing falling commodities prices, falling demand for exports, rising levels of unemployment, and collapsing remittances.

At the G-20 meeting, world leaders committed to make significant sums available to developing countries in response to the global crisis. However, I am concerned that most of these funds are likely to be channeled through the International Monetary Fund (IMF). The IMF may condition assistance to developing countries on austerity measures, as it has done in the past. Such measures would undoubtedly exacerbate the crisis instead of stimulating the local and global economies.

I am also concerned that most, if not all, of the assistance for low-income countries will come in the form of loans, rather than grants. This has the potential to send already stressed countries into a spiral of unsustainable debt. 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 countries that have received debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and 15 low-income countries that are not eligible for HIPC. The world's low-income countries need debt relief and grants – not more debt – to weather this crisis.

In late April, African Finance Ministers at the spring meetings of the IMF and the World Bank urged that a portion of the money from IMF gold sales be used to provide debt service relief for the duration of the global crisis. I have long called for the use of IMF gold sales to fund debt relief for the world's poorest countries. Grassroots organizations such as the ONE campaign and Jubilee USA have also called for IMF gold sales to finance grants and debt relief for the world's poorest countries.

In the near future, the Financial Services Committee will be considering legislation to authorize sales of the IMF's gold reserves and to expand the IMF's authority to lend to developing countries affected by the global crisis. The sale of gold held by the IMF could yield upwards of $10 billion at current market prices. The IMF Board has called for gold sales, but would like to devote the overwhelming majority of this money to its own administrative budget.

However, in light of the devastating impacts of the global crisis on the world's poorest countries, this proposal should be reconsidered. At least $5 billion from the proposed IMF gold sale should be devoted to support low-income countries. The IMF actually has sufficient gold resources to provide support for its own administrative budget *and* provide additional resources to the world's poorest countries.

IMF gold should be used to mobilize $5 billion in non-debt-creating assistance – either debt service relief and/or grants for low-income countries. Specifically, a portion of the gold sale proceeds could be used to provide multilateral debt service relief for eligible HIPCs and other low-income countries that have effective and transparent public financial management practices. Funds could also be provided in the form of grants – especially for countries with high levels of need, but relatively low debt service obligations at this time.

The world's poorest countries are suffering disproportionately as a result of a financial crisis not of their making. The IMF has the resources necessary to help these countries weather the current crisis without forcing them to take out new loans, loans that will keep them in poverty long after the crisis is over.