

THE MULTILATERAL DEBT RELIEF INITIATIVE

In July 2005, the G8¹ proposed the immediate writing off of the debts of post-HIPC countries, most of which are in Africa, as part of a comprehensive package to help these countries achieve the Millennium Development Goals (MDGs) by 2015. Under this initiative, 100% of debt owed by some of the poorest countries to the three major multilateral lending institutions, the African Development Fund (ADF), the World Bank's International Development Association (IDA) and the International Monetary Fund (IMF), is to be cancelled. The deal is worth \$40 billion for the 18 countries which had achieved their HIPC completion points by mid-2005, and as much as \$55 billion as more countries qualify.

The aim of this initiative is to provide additional debt relief to countries, which have reached their HIPC completion point, or will eventually do so in coming years, thereby freeing up resources to achieve the MDGs. For some post-HIPC countries with a high proportion of ADF, IDA and IMF debt, this Multilateral Debt Relief Initiative (MDRI) will result in 80%-90% cancellation of their debt stock, reducing their PV of debt/exports ratio to below 50%-60%. For other countries, particularly the Latin American HIPCs, the MDRI will lead to significantly less debt cancellation. For Guyana, for example, it will be about 30% as Latin American HIPCs will only receive cancellations of IDA and IMF debt, as their Inter-American Development Bank (IDB) and Caribbean Development Bank (CDB) debt were not part of the G8 proposal. However, the IDB is considering implementing a similar type of additional debt relief initiative.

Nonetheless, not all MDRI debt relief is providing truly 'additional' resources for post-HIPC countries. Although the IMF's MDRI relief will be fully additional, this is not the case for IDA and ADF because the annual debt service forgiven under MDRI is to be deducted from the country's annual disbursement allocation, so that the net flows, after MDRI relief, remain the same. Thereafter, each country will receive a small increase in net flows because the total amount of debt service foregone by these creditors will then be reallocated amongst all IDA-only² and ADF-eligible countries respectively, which will result in an increase in IDA and ADF disbursements for both post-HIPC and other eligible IDA-only and ADF countries (see below).

The G8 proposal was agreed in principle at the September 2005 annual meeting of the Bretton Woods institutions (BWIs) in Washington, when it was renamed the Multilateral Debt Relief Initiative (MDRI). Although the MDRI is a common initiative of the three multilateral institutions, the debt relief to be provided is the responsibility of each institution and so the details of its implementation vary. In December 2005, the IMF formally approved the details of how it will deliver its share of this debt relief and IDA has approved the modalities for debt relief from 1 July 2006. In May 2006, the ADF approved its delivery mechanism.

The following describes the modalities of how the IMF, IDA and ADF are to deliver MDRI debt relief.

1. IMF IMPLEMENTATION OF MDRI

1.1 Eligible and Qualifying Countries

Country eligibility and qualification for the IMF's MDRI debt relief are determined as follows:

- All HIPC and non-HIPC IMF members with per capita income of US\$380 or less are potentially eligible for MDRI debt relief. The IMF has widened its criterion to include the poorest non-HIPCs in line with its principle of uniformity of treatment for all IMF member countries.
- To qualify for debt relief HIPCs must reach their completion point and non-HIPCs must meet the income criterion.

¹ The governments of Canada, France, Germany, Italy, Japan, Russia, UK and USA.

² Except 'gap' countries which are those with GNI per capita exceeding the IDA operation threshold (\$965 for fiscal year 2006) for two consecutive years.

- For eligible post-completion point HIPCs and eligible non-HIPCs as at end-2005, the country's macroeconomic performance in three key areas must not have deteriorated substantially since the time its completion point was reached or over recent years for non-HIPCs. In particular, these countries must meet the following conditions:
 - Maintain a minimum 6-month satisfactory macroeconomic track record under a PRGF or Fund-supported arrangements,
 - Have a minimum 6-month track record of satisfactory implementation of a poverty reduction strategy (PRS) or similar framework, and
 - Demonstrate that the quality of the public expenditure management system (PEM) has not deteriorated since completion point or in recent years for non-HIPCs, using the main benchmarks of the HIPC Action and Assessment Plans reports.
- Countries must be current with their debt service payments to the IMF.

If a post-completion point HIPC failed to fulfil any of these performance criteria then remedial actions were proposed and a re-assessment undertaken when these actions have been implemented. These additional conditions only applied to the post-completion point countries as at end-2005 because many of these countries reached their completion point years ago, whereas pre-completion point HIPCs will effectively have met these conditions in order to reach their completion points in future years.

As at end-2005, there were 17 eligible HIPC countries and all but Mauritania met the performance criteria and qualified for IMF relief under the MDRI, as shown in Table 1 below. Although Mauritania failed to qualify immediately for relief because its macroeconomic performance and the management of its public finances had substantially deteriorated since its June 2002 completion point, it completed the remedial actions and qualified for MDRI in June 2006. Cameroon qualified for MDRI on reaching its completion point in May 2006. In terms of non-HIPC countries, Cambodia and Tajikistan have qualified for the IMF's MDRI.

Table 1: IMF Country Coverage for MDRI

Countries eligible as of August 2006	
Post-HIPC countries qualifying for relief	Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia
Non-HIPC countries	Cambodia, Tajikistan
Countries that will be eligible once they reached HIPC completion point	
Post-decision point countries	Burundi, Chad, Congo Republic, Democratic Republic of Congo, The Gambia, Guinea, Guinea-Bissau, Malawi, São Tomé and Príncipe, Sierra Leone
Potential HIPCs, with eligibility to be confirmed on basis of end-2004 debt data (sunset clause countries)	Central African Republic, Comoros, Côte d'Ivoire, Lao PDR, Myanmar, Togo
Protracted arrears	Liberia, Somalia, Sudan
Potential new HIPCs	Eritrea, Haiti, Kyrgyz Republic, Nepal

Source: IMF

1.2 Eligible Debt and Timing of Debt Relief

The IMF debt eligible for 100% debt cancellation is the disbursed outstanding debt as at end-2004. Repayments of eligible loans made between end-2004 and the date of qualification for MDRI relief are not eligible for relief and will not be reimbursed. Countries are expected to continue to service their

IMF debt in full prior to qualification and such payments will not be reimbursed upon MDRI qualification.

The IMF implemented MDRI debt relief by cancelling irrevocably 100% of the eligible debt stock of the qualifying 17 post-completion point HIPCs and two non-HIPCs in January 2006. For the remaining eligible HIPCs, the IMF will provide MDRI debt relief once a country achieves its HIPC completion point.

Table 2 summarises the MDRI eligible and potentially eligible debt of the IMF as at end-2005 and the anticipated debt service savings this will result in 2006 and 2007.

Table 2: MDRI Relief from the IMF as at August 2006 (US\$ m)

Countries	HIPC debt relief from 2006	MDRI relief	Total IMF HIPC + MDRI relief	Estimated debt service savings 2006-07	Countries	HIPC debt relief from 2006	MDRI relief on debt as of end-2004	Total IMF HIPC + MDRI relief	Estimated debt service savings 2006-07
MDRI Eligible Countries					Post-completion point HIPCs yet to be approved				
<i>Post-completion point HIPCs approved</i>					<i>MDRI Potentially Eligible HIPCs</i>				
<i>Post-completion point HIPCs approved</i>					<i>Post-decision point HIPCs</i>				
Benin	3	49	52	17	Burundi	38	37	75	0
Bolivia	9	224	233	126	Chad	10	73	83	31
Burkina Faso	7	82	90	33	Congo (R)	8	8	16	4
Cameroon	29	270	299	118	Congo (DR)	437	756	1,193	72
Ethiopia	47	115	162	30	Gambia	3	22	25	9
Ghana	66	318	383	103	Guinea	8	92	100	42
Guyana	20	46	65	28	Guinea-Bissau	6	11	17	7
Honduras	13	142	155	59	Malawi	15	67	82	48
Madagascar	13	186	198	51	São Tomé & Príncipe	-	3	3	1
Mali	18	90	108	40	Sierra Leone	60	172	232	23
Mauritania	7	70	77	22	Total	585	1,242	1,827	237
Mozambique	34	120	154	70	<i>Pre-decision point HIPCs</i>				
Nicaragua	70	133	203	68	Central African Republic	-	-	36	16
Niger	26	86	112	32	Comoros	-	-	-	-
Rwanda	47	29	76	33	Côte d'Ivoire	-	-	199	108
Senegal	8	137	145	73	Liberia	-	-	730	19
Tanzania	39	299	338	136	Somalia	-	-	318	9
Uganda	17	110	127	77	Sudan	-	-	1,523	32
Zambia	6	576	582	59	Togo	-	-	14	13
Total	478	3,081	3,559	1,173	Total	0	0	2,821	197
<i>Non-HIPCs approved</i>					<i>Non-HIPCs approved</i>				
Cambodia	-	82	82	18	Cambodia	-	82	82	18
Tajikistan	-	100	100	31.2	Tajikistan	-	100	100	31.2
Total	0	182	182	49	Total	0	182	182	49
Total Approved	478	3,263	3,741	1,222	Total To Be Approved	585	1,242	4,648	434

1.3 Implications for Future Flows

The cost of MDRI relief is being funded from the IMF's own resources and therefore this debt relief provides fully additional resources to countries for financing poverty reduction expenditures. The MDRI has no impact on the IMF's lending policy or the amounts it will disburse to countries in future.

2. IDA IMPLEMENTATION OF MDRI

2.1 Eligible and Qualifying Countries

Country eligibility and qualification criteria for IDA's MDRI debt relief are the same as for the IMF with the exception that only HIPCs are potentially eligible. The same conditionalities apply for post-completion HIPCs as of end-2005 to qualify for MDRI relief. In addition, countries must be current with their IDA debt service payments.

As of August 2006, there were 19 eligible HIPCs, as shown in Table 3 below. Cameroon became eligible for MDRI relief on reaching its completion point in May 2006, while Mauritania qualified in June 2006.

Table 3: IDA Country Coverage for MDRI

Countries eligible as of August 2006	
Post-HIPC countries qualifying for relief	Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia
Countries that will be eligible once they reached HIPC completion point	
Post-decision point countries	Burundi, Chad, Congo Republic, Democratic Republic of Congo, The Gambia, Guinea, Guinea-Bissau, Malawi, São Tomé and Príncipe, Sierra Leone
Pre-decision point HIPCs	Central African Republic, Comoros, Côte d'Ivoire, Lao PDR, Liberia, Myanmar, Somalia, Sudan, Togo
Potential new HIPCs	Eritrea, Haiti, Kyrgyz Republic, Nepal

Source: IDA

2.2 Eligible Debt and Timing of Debt Relief

The IDA debt eligible for 100% debt cancellation is the disbursed outstanding debt as of end-2003. All disbursements after this date, whether on existing loans or new loans, are not eligible for debt cancellation. All debt service payments made between end-2003 and the date a country qualifies for MDRI relief are not eligible for relief and will not be reimbursed.

IDA is proposing to implement its MDRI debt relief as of 1 July 2006, the start of its next fiscal year, at which time the qualifying post-completion point HIPCs will have 100% of their eligible debt cancelled irrevocably. Countries which have yet to reach their HIPC completion points will receive IDA MDRI relief in the quarter following their completion point. So, for example, a country reaching its completion point in August 2006 will receive irrevocable MDRI relief from IDA in the fourth quarter of 2006.

Table 4 illustrates the estimated amount of MDRI debt relief to be provided by IDA during IDA-14, IDA-15 and in total. While the total MDRI relief per country for the period 2007-44 is known, the projected debt relief for post-decision point HIPCs and pre-decision point HIPCs during IDA-14 and IDA-15 are based on assumptions about when these countries will achieve their completion and decision points.

Table 4: Estimated MDRI Relief from IDA as of August 2006 (SDR millions)

Countries	IDA 14	IDA 15	Total	Countries	IDA 14	IDA 15	Total
	FY 2007-08	FY 2009-11	FY 2007-44		FY 2007-08	FY 2009-11	FY 2007-44
Post-completion point HIPCs approved				Post-decision point HIPCs (cont.)			
Benin	18	31	467	Congo (R)	-	6	83
Bolivia	30	62	1,027	Congo (DR)	7	19	660
Burkina Faso	16	27	497	Gambia	-	10	139
Cameroon	4	14	587	Guinea	14	50	744
Ethiopia	18	39	1,582	Guinea-Bissau	-	5	85
Ghana	67	119	2,019	Malawi	21	73	1,067
Guyana	4	8	128	São Tomé & Príncipe	0	1	25
Honduras	20	39	802	Sierra Leone	3	8	262
Madagascar	42	81	1,197	Total	54	204	3,584
Mali	30	53	854	Pre-decision point HIPCs			
Mauritania	11	22	371	Central African Republic	-	1	35
Mozambique	22	66	884	Comoros	-	-	17
Nicaragua	8	19	518	Côte d'Ivoire	-	17	744
Niger	11	19	506	Liberia	-	-	3
Rwanda	4	7	235	Somalia	-	1	13
Senegal	41	102	1,255	Sudan	-	2	42
Tanzania	60	111	1,898	Togo	-	-	294
Uganda	62	116	1,882	Total	-	21	1,148
Zambia	25	51	1,269	New HIPCs			
Total	493	986	17,978	Eritrea	-	1	111
Post-completion point HIPCs yet to be approved				Haiti	-	6	268
				Kyrgyz Rep.	-	15	299
Post-decision point HIPCs				Nepal	-	32	749
Burundi	1	3	13	Total	-	54	1,427
Chad	8	29	506	TOTAL	547	1,265	24,137

Source: World Bank

2.3 Implications for Future Flows

The cost of IDA's MDRI relief is not providing fully additional resources for each country's poverty reduction spending to reach the MDGs. As future IDA lending and disbursements are dependent on the recycling of debt service payments of current IDA loans (known as reflows), the cancelling of outstanding IDA debt means IDA's income from future debt service payments will decline. Therefore to compensate IDA for this reduction in income, donors have agreed to provide IDA with the equivalent additional resources.

IDA is implementing MDRI through a two-step process as follows:

- 1) The debt service payments forgiven annually will be deducted from the country's annual IDA allocation of disbursements. So, for example, if in fiscal year 2006-07 under IDA-14 a country has an initial IDA allocation for disbursements³ of \$100 million and under MDRI it is to receive debt service relief of \$40 million, then the debt relief of \$40 million will be deducted from its initial \$100 million IDA allocation. Therefore the country's new IDA disbursements in 2006-07 will be \$60 million. So although the country's net flows from IDA remain unchanged at \$100 million, the MDRI relief is not additional to what the country would have received in IDA disbursements, without MDRI.
- 2) However there is a compensatory mechanism whereby each country will receive some additional IDA disbursements. This is because the total amount of IDA debt relief provided annually, that is the funding by donors to compensate IDA for the foregone debt service payments, will be reallocated across all IDA-only countries, except gap countries², proportional to their share of IDA disbursements⁴. As a result all IDA-only countries receive a small additional IDA allocation.

The impact of the two-step process on IDA disbursement for the three years of IDA-14 is illustrated in Table 5.

The case in Benin illustrates as follows:

³ The IDA allocation under IDA-14 is determined on the basis of IDA's Performance-Based Allocation (PBA) system.

⁴ This allocation is done on the basis of the PBA system.

- Benin's IDA-14 allocation is SDR 169 million over the three-year FY 2006-2008.
- Its MDRI relief for FY 2007-2008 is SDR 18 million, which is the sum of the cancelled debt service payments on its IDA debt outstanding as of end-2003.
- As a result new disbursements after deduction of the MDRI relief but before the reallocation across all IDA-only countries, will be SDR 151 million (SDR 169 million less SDR 18 million).
- On the basis of the reallocation across all IDA-only countries, Benin will receive an additional allocation of SDR 4.2 million in IDA disbursements for FY 2007-08.
- As a result of this redistribution, there is small increase in Benin's IDA-14 new disbursements (after MDRI relief) from SDR 151 million to SDR 155.2 million. However, this is less than the country's initial IDA-14 disbursement allocation of SDR 169 million.

In practice this two-step process will be applied annually on a country-by-country basis.

Table 5: Estimated Impact of MDRI on IDA-14 Flows as of August 2006 (SDR millions)

Countries	IDA allocation FY2006-08	MDRI relief FY 2007-08	IDA disbursements after deducting MDRI	PBA reallocation	IDA disbursements (excluding MDRI relief)
Post-completion point HIPCs approved					
Benin	169	18	151	4.2	155
Bolivia	119	30	89	2.9	92
Burkina Faso	266	16	250	6.6	257
Cameroon	192	4	188	4.7	193
Ethiopia	1,426	18	1,408	35.2	1,443
Ghana	522	67	455	12.9	468
Guyana	18	4	14	0.4	14
Honduras	134	20	114	3.3	117
Madagascar	455	42	413	11.2	424
Mali	229	30	199	5.6	205
Mauritania	96	11	85	2.4	87
Mozambique	366	22	344	9.0	353
Nicaragua	112	8	104	2.8	107
Niger	141	11	130	3.5	133
Rwanda	197	4	193	4.9	198
Senegal	213	41	172	5.3	177
Tanzania	1,057	60	997	26.1	1,023
Uganda	735	62	673	18.1	691
Zambia	188	25	163	4.6	168
Total	6,635	493	6,142	164	6,306
Post-decision point HIPCs					
Burundi	175	1	174	4.3	178
Chad	68	8	60	1.7	62
Congo (R)	65	0	65	1.6	67
Congo (DR)	1,021	7	1,014	25.2	1,039
Gambia	22	0	22	0.5	23
Guinea	84	14	70	2.1	72
Guinea-Bissau	11	0	11	0.3	11
Malawi	224	21	203	5.5	209
São Tomé & Príncipe	4	0	4	0.1	4
Sierra Leone	92	3	89	2.3	91
Total	1,766	54	1,712	44	1,756
Pre-decision point HIPCs					
Central African Republic	9	-	9	0.2	9
Comoros	5	-	5	0.1	5
Côte d'Ivoire	231	-	231	5.7	237
Lao, PDR	43	-	43	1.1	44
Liberia	69	-	69	1.7	71
Myanmar	0	-	0	0.0	0
Somalia	0	-	0	0.0	0
Sudan	634	-	634	15.6	650
Togo	18	-	18	0.4	18
Total	1,009	0	1,009	25	1,034
New HIPCs					
Eritrea	76	-	76	1.9	78
Haiti	106	-	106	2.6	109
Kyrgyz Rep.	81	-	81	2.0	83
Nepal	526	-	526	13.0	539
Total	789	0	789	19	808
Total	10,199	547	9,652	252	9,904

3. ADF IMPLEMENTATION OF MDRI

3.1 Eligible and Qualifying Countries

Country eligibility and qualification for ADF member states for MDRI debt relief are the same as for IDA. The same conditionalities apply for post-completion HIPCs as of end-2005 to qualify for MDRI relief. In addition, countries must be current with their ADF debt service payments.

As of April 2006, there are 13 post-completion HIPCs (Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia) which have qualified for MDRI relief from the ADF, as shown in Table 6. Cameroon became eligible for MDRI relief on reaching its completion point in May 2006 and Mauritania qualified in June 2006.

3.2 Eligible Debt and Timing of Debt Relief

The ADF debt eligible for 100% cancellation is the disbursed outstanding debt as of end-2004. All new credits and disbursements after this date are not eligible for debt relief and all debt service payments made after end-2004 and the date a country qualifies for MDRI relief are not eligible for relief and will not be reimbursed.

The ADF MDRI relief is to be implemented from January 2006 for qualifying post-completion point countries. However, as the ADF Board only approved the details in May 2006, the relief to be delivered in July 2006 will be backdated to 1 January 2006. Countries, which have yet to reach their HIPC completion points, will qualify for ADF MDRI relief three months after reaching completion point. However, this relief will not be delivered until 1 January of the following year to allow for new country disbursement allocations and the 'netting out' process described below.

Table 6 shows the debt service savings ADF member countries can expect to receive in 2006, 2007 and in total with the delivery of MDRI by the ADF.

Table 6: ADF Country Coverage and MDRI Relief as of August 2006 (US\$ millions*)

Countries	2006	2007	Total	Countries	2006	2007	Total
Post-completion point HIPCs approved				Post-decision point HIPCs (cont.)			
Benin	0.9	1.0	158	Congo (DR)		0.8	68
Burkina Faso	1.0	1.1	150	Gambia	-	0.8	76
Cameroon	0.5	1.1	101	Guinea	-	2.2	137
Ethiopia	2.5	2.7	324	Guinea-Bissau	-	-	36
Ghana	2.5	2.7	211	Malawi	0.8	1.6	176
Madagascar	1.3	1.3	163	São Tomé & Príncipe	0.2	0.4	20
Mali	2.1	2.1	244	Sierra Leone	0.4	0.8	62
Mauritania	0.8	0.9	114	Total	1.3	8.2	730
Mozambique	1.5	1.7	239	Pre-decision point HIPCs			
Niger	0.8	0.8	85	Central African Republic	-	-	58
Rwanda	0.7	0.7	48	Comoros	-	-	16
Senegal	1.9	2.9	180	Côte d'Ivoire	-	-	126
Tanzania	1.7	1.8	267	Liberia	-	-	8
Uganda	1.7	1.8	226	Somalia	-	-	27
Zambia	1.1	1.1	106	Sudan	-	-	95
Total	21.1	23.7	2,617	Togo	-	-	52
Post-completion point HIPCs yet to be approved				Total	0	0	381
				New HIPCs			
Post-decision point HIPCs				Eritrea	-	-	29
Burundi	-	0.1	4	Total	0	0	29
Chad	-	1.4	146	Total	22	32	3,758
Congo (R)	-	-	5				

* Converted from UA using end-2004 exchange

Source: ADF

3.3 Implications for Future Flows

As for IDA, the cost of the ADF's MDRI relief will not be truly additional resources. As for IDA, ADF lending and disbursements are dependent on the recycling of debt service payments of current ADF loans so donors have agreed to compensate ADF for these foregone debt service with the equivalent additional resources.

As a result ADF is adopting the same two-step procedures as IDA for implementing MDRI relief, as follows:

- 1) The debt service payments forgiven annually will be deducted from the country's annual ADF allocation of disbursements. So, the country's net flows from ADF remain unchanged and therefore MDRI relief is not additional to what the country would have received in ADF disbursements, without MDRI.
- 2) However there is the compensatory mechanism whereby countries will receive some additional ADF disbursements. This is because the total amount of ADF debt relief provided annually, which is provided by donors to compensate ADF for the foregone debt service payments, will be reallocated across all ADF countries proportional to their share of ADF disbursements. As a result all ADF countries receive a small additional ADF allocation.