INTERNATIONAL MONETARY FUND

The Multilateral Debt Relief Initiative: A First Assessment of Eligible Countries

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(In consultation with other departments)

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I. INTRODUCTION

1. **The Executive Board approved on November 23, 2005 the implementation modalities of the Multilateral Debt Relief Initiative (MDRI) in the Fund**.[1] The initial objective of this proposal, first advanced by the G-8 in June 2005, was for the Fund, the International Development Association (IDA), and the African Development Fund (AfDF) to cancel 100 percent of their claims on countries having reached, or upon reaching, the completion point under the HIPC Initiative. The proposal has been modified to fit the requirement, specific to the Fund, of uniformity of treatment in the use of the institution's resources. Thus, all members—HIPCs and non-HIPCs—with annual per capita income below \$380,[2] as well as HIPCs with per capita income above this threshold, are eligible for 100 percent debt relief from the Fund (with respect to eligible debt).

2. **This paper responds to the Board's request for an assessment of eligible countries that could qualify for Fund debt relief under the MDRI** once the requisite consents and requests have been received.[3] Directors requested that, by end-2005, staff prepare, in collaboration with the World Bank, an assessment of the 18 post-completion point HIPCs, as well as eligible non-HIPCs, and propose for Board consideration a list of members that would qualify immediately for MDRI debt relief. Directors also requested that, for those members that do not presently meet the MDRI qualification criteria, remedial measures be expressly identified that would allow them to qualify for MDRI relief. Section II provides a description of the methodology used for the assessment of eligible members. Section III presents a summary of the results and staff's recommendations on qualification. Section IV discusses next steps; and Section V includes issues for Board discussion.

II. ASSESSMENT METHODOLOGY

A. Assessed Countries

3. **As of December 8, 2005, 20 countries are eligible for debt relief from the Fund under the MDRI-I and II Trusts**. Twelve countries are eligible for relief under the MDRI-I Trust (for countries below the per capita income threshold of US\$380). Among these, two are non-HIPCs (Cambodia and Tajikistan, the only two members below the income threshold that have debt outstanding to the Fund as of end-2004 and are not HIPCs, or

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[1] See *The Multilateral Debt Relief Initiative (G-8 Proposal) and Its Implication for the Fund—Further Considerations* (September 9, 2005 and November 1, 2005) and *Multilateral Debt Relief Initiative and Exogenous Shocks Facility—Proposed Decision* (November 16, 2005).

[2] On the basis of the 2004 gross national income as calculated by the World Bank (Atlas method).

[3] The consents of all contributors to the PRGF Trust Subsidy Account are required for the MDRI legal framework to become effective. Debt relief will only be provided to a qualifying member upon its request.

potentially HIPC-eligible under the extended sunset clause) and ten are HIPCs that are already past the completion point of the HIPC Initiative (Table 1). Another eight HIPCs with per capita income above the US$380 threshold have reached the completion point under the HIPC Initiative and are eligible for relief under the MDRI-II Trust. The other potential beneficiaries are members that are eligible, or potentially eligible, for debt relief under the HIPC Initiative, but that have not yet reached the completion point.[4] The Board agreed that these countries will qualify for MDRI debt relief when they reach the HIPC Initiative completion point.

Table 1. Country Coverage of the MDRI

Countries that are now eligible for MDRI relief	
Countries that have reached the completion point under the Enhanced HIPC Initiative	Eligible under the MDRI-I Trust: Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Tanzania, Uganda. Eligible under the MDRI-II Trust: Benin, Bolivia, Guyana, Honduras, Mauritania, Nicaragua, Senegal, Zambia.
Non-HIPCs with a per capita income below US$380 and outstanding debt to the Fund which are not potentially HIPC-eligible under the extended sunset clause	Eligible under the MDRI-I Trust: Cambodia, Tajikistan.
Countries that will be eligible for MDRI relief once they reach the completion point under the Enhanced HIPC Initiative	
Countries that have reached the decision point under the Enhanced HIPC Initiative	Eligible under the MDRI-I Trust: Burundi, Chad, Democratic Republic of the Congo, The Gambia, Guinea-Bissau, Malawi, São Tomé and Príncipe, Sierra Leone. Eligible under the MDRI-II Trust: Cameroon, Guinea.
HIPC "sunset clause countries"—countries whose eligibility for HIPC assistance needs to be confirmed on the basis of end-2004 debt data	Potentially eligible under the MDRI-I Trust or the MDRI-II Trust, based on their per capita income.
Protracted arrears cases	Liberia, Somalia, Sudan.

[4] This group includes the three protracted arrears cases (Liberia, Somalia, and Sudan), as well as countries that may become eligible for the HIPC Initiative under the extended sunset clause (see *Heavily Indebted Poor Countries Initiative—Status of Implementation*, August 19, 2005).

B. Eligible Debt

4. **The debt eligible for 100 percent relief under the MDRI consists of the repayment/repurchase obligations to the Fund on debt disbursed before January 1, 2005 that remains outstanding at the time the member is determined to qualify for such relief**. The precise amounts of MDRI debt relief to be provided to qualifying members will be determined once the relevant decisions establishing the two MDRI Trusts, as well as the individual decisions on qualification, become effective. Repayments made between end-2004 and the date of the qualification decision are not eligible for relief. Thus, for those countries which are not deemed to qualify immediately for MDRI debt relief, the stock of debt eligible for such relief may be smaller than that given in Table 2.[5]

C. Overall Guidance Provided by the Board on Conditions for Qualification

5. **Conditions for qualification are meant to ensure that the groundwork has been laid to put the resources freed by debt relief to good use, as well as comparable treatment of eligible members**. Resources are much more likely to be used productively towards improving human development and social indicators in a context where sound macroeconomic policies, with a focus on poverty reduction, are implemented and public expenditure management (PEM) systems are adequate. Accordingly, members reaching the completion point under the HIPC initiative are expected to satisfy three criteria: a track record of satisfactory macroeconomic performance under PRGF arrangements; a track record of satisfactory implementation of a poverty reduction strategy (PRS); and improvements in PEM systems. The same broad conditions should prevail in countries benefiting from MDRI relief. These conditions are also meant to ensure that eligible members, some of which are already past the completion point of the HIPC initiative or are not HIPCs, are treated comparably.

[5] Countries are expected to continue to service their obligations to the Fund while awaiting qualification for MDRI debt relief. These debt service payments will not be reimbursed when the country eventually qualifies for debt relief.

Table 2. Estimated Eligible Fund Credit Outstanding for Potentially Qualifiyng Countries Under the MDRI
(In millions of SDRs; at end-December 2005)

	GRA	PRGF	Total 1/	Projected principal repayments during 2005		Projected credit outstanding at end-2005 resulting from disbursements made prior to January 1, 2005
	at end-December 2004					
			(A)	(B)		(A)-(B)
Completion Point Countries (18)	**102**	**2,644**	**2,746**	**494**		**2,252**
1 Benin	-	42	42	6		36
2 Bolivia	102	96	198	37	2/	161
3 Burkina Faso 3/	-	74	74	12		62
4 Ethiopia	-	118	118	6		112
5 Ghana	-	302	302	36		265
6 Guyana	-	57	57	12		45
7 Honduras	-	126	126	18		107
8 Madagascar	-	145	145	8		137
9 Mali	-	93	93	18		75
10 Mauritania	-	58	58	10		49
11 Mozambique	-	127	127	20		107
12 Nicaragua	-	160	160	19		140
13 Niger	-	87	87	10		78
14 Rwanda	-	59	59	7		53
15 Senegal	-	131	131	31		100
16 Tanzania	-	272	272	38		234
17 Uganda	-	123	123	36		88
18 Zambia 4/	-	573	573	171		403
Non-HIPCs	**-**	**141**	**141**	**15**		**126**
19 Cambodia	-	63	63	6		57
20 Tajikistan	-	79	79	9		69
Total	**102**	**2,786**	**2,887**	**509**		**2,378**

1/ HIPC assistance is not included in credit outstanding.
2/ Reflects actual PRGF repayments and GRA repurchases made by Bolivia in 2005 on expectation schedule.
3/ Includes outstanding SAF credit of SDR 0.3 million.
4/ Includes outstanding SAF credit of SDR 36.4 million.

6. **The Board has provided broad guidance to staff on conditions for qualification under the MDRI**. During their discussion of *The Multilateral Debt Relief Initiative (G-8 Proposal) and Its Implications for the Fund – Further Considerations*, Directors stressed that conditions to qualify for debt relief under the MDRI should be consistent for pre- and post-completion-point HIPCs, as well as for non-HIPCs. The Board also indicated that, as is the case in the HIPC Initiative, the qualification criteria should be used flexibly. In particular, the assessment should take into account a member's specific circumstances. In addition to the above criteria, Directors re-affirmed that all members receiving MDRI debt relief must be current with their repayment obligations to the Fund.

7. **Most Directors confirmed that, to benefit from MDRI debt relief, post-completion point HIPCs' performance in the three key areas mentioned above should**

not have deteriorated substantially since the time the completion point was reached.[6] The assessments thus attempt to compare the current track record of policies in the three areas mentioned above with that prevailing at the time of completion point. Thus, a weakening of performance following completion point would not affect the assessment if it has been followed by a sustained improvement in the most recent period.

8. **Directors agreed that for HIPCs, a minimum track record of six months of satisfactory macroeconomic performance and implementation of a PRS (or a similar framework) would be needed to qualify for MDRI debt relief**. Specifically, for members with a Fund arrangement in place, the assessment would be based on the outcome of the latest review under the arrangement, assuming that it was completed less than six months earlier. HIPCs without a Fund-supported program or for which a review under a Fund arrangement was concluded more than six months before the assessment date would also be required to show a minimum six-month track record of macroeconomic policies consistent with the standards of upper credit tranche (UCT) conditionality,[7] and a minimum six months of satisfactory implementation of a PRS (or a similar framework), both in the period immediately prior to the assessment. For all HIPCs, an assessment that the quality of their PEM systems has not deteriorated substantially since completion point would also be required to qualify for MDRI relief. If performance is deemed unsatisfactory in any of these areas, remedial actions would be proposed and a re-assessment undertaken once the remedial actions have been implemented.

9. **To guarantee a consistent treatment of eligible members, the performance of non-HIPCs eligible for MDRI debt relief from the Fund should be assessed in the same three areas**. Directors agreed that the specific qualification requirements should be: a track record of at least six months of sound macroeconomic policies and satisfactory implementation of a PRS (or equivalent framework) in the period immediately prior to the assessment, and an assessment that the quality of PEM systems would allow resources freed by debt relief to help meet the MDGs. Directors noted that, unlike HIPCs, for non-HIPCs no formal comprehensive assessment of their PEM systems has been undertaken. They underscored that performance in the area of PEM systems should be assessed drawing from a variety of sources to ascertain that PEM systems in these countries are, and are expected to

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[6] A similar approach was used for the enhancement of the HIPC Initiative. Countries that had already qualified for HIPC assistance under the original framework did not get additional debt relief automatically, but only after an assessment by the Fund of their adjustment and reform efforts and overall progress in poverty reduction.

[7] Although the MDRI decisions and staff commentary do not specifically refer to policies meeting the standards of UCT conditionality in applying the test for satisfactory macroeconomic performance for all HIPCs, the UCT benchmark is implied by the link to completion of reviews for HIPCs with Fund arrangements and by the principle that the qualification criteria for HIPCs without Fund arrangements would be applied on comparable terms.

remain, sufficiently strong to provide comfort that resources freed by MDRI debt relief will be used productively. Should a country fail that test, staff should propose remedial actions involving a sustained strengthening of PEM systems. Remedial actions would also be proposed if performance in the macroeconomic or poverty reduction areas were deemed unsatisfactory over the six months prior to the assessment.

10. **Directors called on the Fund and the World Bank to cooperate and coordinate in the implementation of the MDRI**, including in the area of assessing qualification for MDRI debt relief. As explained below, Fund staff has relied extensively on Bank expertise in the areas of poverty reduction policies and PEM systems. However, the assessments presented to the Board are ultimately the responsibility of Fund staff.

D. Macroeconomic Performance Criterion

11. **Staff assessed whether eligible countries now have a track record of at least six months of satisfactory macroeconomic performance**. This involved an analysis of the overall economic performance since completion point for HIPCs (over recent years for non-HIPCs), with a focus on the past six months and the immediate outlook. For members with a Fund-supported program, staff considered that the criterion was met if a program review has been completed within the past six months or less (i.e., since June 8, 2005), unless significant developments have since changed staff's view of the macroeconomic situation. For members without a Fund-supported program, or members for which a review under a Fund arrangement was concluded more than six months ago (i.e., before June 8, 2005), staff assessed whether macroeconomic policies over the previous six months have been compatible with sustainable growth, low inflation and fiscal and external sustainability.

12. **In line with the Board's recommendation to assess qualification criteria flexibly, remedial actions are described in broad terms**. In general, the objective of these remedial actions is to address key deficiencies in macroeconomic policies. If recent macroeconomic performance has been seriously lacking, a clear track record of at least six months of satisfactory macroeconomic performance is expected before the next assessment. For members with a Fund arrangement whose latest review was completed more than six months ago, completion of the next review is generally recommended.

E. Criterion on Implementation of Poverty Reduction Policies

13. **Similarly, to qualify for MDRI relief, eligible countries should have a track record of at least six months of satisfactory implementation of a PRS (or a similar framework) immediately prior to the assessment**. The World Bank undertook background analysis for the 18 post-completion-point countries, while Fund country teams did the review of the two non-HIPCs. In cases where a formal PRS process is in place (all currently eligible members except Bolivia), intensive use was made of PRS documentation (e.g., Poverty Reduction Strategy Papers, Annual Progress Reports) and corresponding analyses recently produced by Bank and Fund staffs (Joint Staff Advisory Notes or Joint Staff Assessments). For non-HIPCs, trends were analyzed over recent years.

F. Criterion on the Quality of Public Expenditure Management Systems

14. **To qualify for MDRI relief, post-completion-point HIPCs must demonstrate that the quality of their PEM systems has not deteriorated substantially since they reached the completion point**. For these countries, background analytical work was carried out by World Bank staff in collaboration with FAD. Extensive use was made of the HIPC Assessment and Action Plans (AAP) reports. These reports provide a broad assessment of PEM issues in the areas of budget formulation, budget execution, and reporting. They were supplemented as needed by other sources of information, including previous PEM reports prepared by the Fund and the Bank, especially for countries for which no AAP is available after the completion point.[8]

15. **The PEM systems of the two non-HIPCs (Cambodia and Tajikistan) were assessed against the same AAP benchmarks.** This allows a comparison with HIPCs, which provides another benchmark to assess the performance of non-HIPCs in this area. The objective of the assessments was both to determine the existence of a trend improvement of the PEM systems, and to assess whether current performance was sufficient to provide reasonable assurance that MDRI resources could be used appropriately. In this context, the two assessments endeavored to provide, to the extent possible, an evaluation of the current PEM performance in relation to the AAP indicators, and an overview of the developments in recent years.[9] For Cambodia, an FAD mission in late November 2005 conducted the assessment, discussed and broadly agreed the findings with the authorities. The assessment for Tajikistan was prepared based on the findings of a July 2005 FAD TA mission and other diagnostic reports; an MCD mission, which was in the field in late November 2005, discussed the assessment with the authorities.

16. **For members whose performance needs to improve to meet the PEM criterion, corrective actions are proposed in the areas considered most critical to help ensure that resources freed by MDRI debt relief can be used productively to help meet the MDGs**.

III. COUNTRY ASSESSMENTS

17. Table 3 summarizes the results of the assessments undertaken by staff under the methodology described above. Detailed assessments are presented in separate country-specific reports.

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[8] Given the time constraint, most of the additional analyses were desk-based.

[9] Although a similar methodology was used, the HIPC AAPs were spread over a longer period of time and carried out in a more thorough fashion.

Table 3. Summary of Staff's Assessment of Countries Eligible for Immediate Debt Relief from the Fund Under the MDRI

Countries	Macroeconomic performance	Implementation of the poverty reduction policies	Public expenditure management systems
1. Countries for which immediate qualification is recommended			
Benin	criterion is met	criterion is met	criterion is met
Bolivia	criterion is met	criterion is met	criterion is met
Burkina Faso	criterion is met	criterion is met	criterion is met
Cambodia	criterion is met	criterion is met	criterion is met
Ghana	criterion is met	criterion is met	criterion is met
Guyana	criterion is met	criterion is met	criterion is met
Honduras	criterion is met	criterion is met	criterion is met
Mali	criterion is met	criterion is met	criterion is met
Mozambique	criterion is met	criterion is met	criterion is met
Niger	criterion is met	criterion is met	criterion is met
Tajikistan	criterion is met	criterion is met	criterion is met
Tanzania	criterion is met	criterion is met	criterion is met
Uganda	criterion is met	criterion is met	criterion is met
Zambia	criterion is met	criterion is met	criterion is met
2. Countries for which immediate qualification if not recommended*			
Ethiopia	performance will be satisfactory upon completion of a satisfactory six-month track record	criterion is met	criterion is met
Madagascar	Performance will be satisfactory upon evidence that the fourth quarter tax revenue and the 2006 budget are in line with staff's projections and the authorities' macroeconomic objectives, respectively	criterion is met	criterion is met
Mauritania	performance will be satisfactory upon completion of a satisfactory six-month track record under a SMP and a further six months under a PRGF-supported program or under a PSI	criterion is met	performance will be satisfactory upon improving the expenditure circuit and fiscal reporting
Nicaragua	performance will be satisfactory upon the completion of the 7th review under the PRGF arrangement	criterion is met	criterion is met
Rwanda	performance will be satisfactory upon the completion of the 6th review under the PRGF arrangement	criterion is met	criterion is met
Senegal	performance will be satisfactory upon the completion of the 3rd and 4th review under the PRGF arrangement	criterion is met	performance will be satisfactory upon the implementation of specific actions aimed at strengthening public transparency and accountability in procurement practices

* These staff proposals were not endorsed by the Board (see paragraphs 19 and 21).

18. **Staff recommends that the Board determine that Benin, Bolivia, Burkina Faso, Cambodia, Ghana, Guyana, Honduras, Mali, Mozambique, Niger, Tajikistan, Tanzania, Uganda, and Zambia qualify for immediate debt relief from the Fund under the MDRI**.[10] For these countries, debt relief would be delivered in early January 2006 once the decisions on qualification for each qualifying member become effective.

- **Macroeconomic criterion**. Staff considers that all these countries have demonstrated a track record of satisfactory macroeconomic performance over at least the past six months. All but Cambodia, Honduras, and Mali have a Fund-supported program which was either approved (Benin) or under which a review was completed by the Executive Board (Bolivia, Burkina Faso, Ghana, Guyana, Mozambique, Niger, Tanzania, Uganda, Tajikistan,[11] and Zambia[12]) since June 7, 2005. In addition, staff is of the view that macroeconomic developments have remained satisfactory since the approval of, or completion of the latest review under, the arrangements. Honduras and Mali have a Fund-supported program whose latest review was completed before June 7, 2005. However, staff considers that recent macroeconomic developments in each of these countries have been satisfactory, as documented in the staff reports recently circulated to the Board to support completion of the next reviews. Cambodia does not at present have a PRGF arrangement, but staff is of the view that its recent macroeconomic has been satisfactory, with in particular growth and inflation averaging about 7 percent and 4 percent, respectively, over the past three years, and sustainable external and public debt positions.

- **Poverty-reduction policy criterion**. Staff considers that all these countries have implemented their poverty reduction strategy in a satisfactory manner over at least the past six months. All, except Bolivia, have a formal PRS process in place whose implementation was found to be satisfactory.[13] In the

[10] Burkina Faso, Cambodia, Ghana, Mali, Mozambique, Niger, Tajikistan, Tanzania and Uganda would qualify under the MDRI-I Trust; Benin, Bolivia, Guyana, Honduras and Zambia would qualify under the MDRI-II Trust.

[11] The fifth review under the PRGF arrangement with Tajikistan was completed in July 2005 on a lapse-of-time basis. The sixth and final review under the arrangement is expected to be brought to the Board for discussion in January 2006. Tajikistan's macroeconomic performance over the past three years has been satisfactory, as illustrated by the satisfactory implementation of its PRGF-supported program since December 2002.

[12] In the case of Zambia, a review of financing assurances for the fourth disbursement under the PRGF arrangement was completed on October 18, 2005 on a lapse-of-time basis. At the time, it was concluded that macroeconomic performance had been satisfactory.

[13] In the case of Cambodia and Tajikistan, implementation of their PRS has been satisfactory over the past recent years.

case of Bolivia, Bank and Fund staffs agreed that the implementation of the authorities' poverty reduction policies was satisfactory, with a good chance that many of the MDGs will be met, or be very close to being met, by 2015.

- **Public expenditure management criterion**. In most of these countries, the quality of PEM systems has been maintained or has improved over the recent period. No substantial deterioration was recorded for HIPCs since completion point. Staff is of the view that, in both Cambodia and Tajikistan, core PEM systems function reasonably well. The quality of these systems has exhibited a trend improvement in recent years and has reached a level that is comparable with that in some post-completion-point HIPCs for which qualification is recommended.

19. **Staff recommends that the Board determine that Ethiopia, Madagascar, Mauritania, Nicaragua, Rwanda, and Senegal will qualify for MDRI relief when the Board determines that the identified remedial actions have been taken**, and that a satisfactory performance has been maintained with respect to the other qualification criteria.*

20. **Ethiopia, Madagascar, Nicaragua, and Rwanda meet the PRS and PEM criteria but do not meet the macroeconomic criterion at this time. The following remedial measures are proposed by staff**:

- **Ethiopia**: There is no Fund arrangement in place and the last PRGF arrangement expired in October 2004. Macroeconomic pressures are emerging, particularly in the balance of payments. Staff is of the view that the macroeconomic criterion of a satisfactory six-month track record would be met once the Board determines that the authorities' policy framework safeguards macroeconomic stability. This could be established in the context of the ongoing Article IV Consultation.

- **Madagascar**: The previous PRGF arrangement expired in March 2005 and a combination of external and fiscal shocks has severely disrupted economic activity. The authorities have taken a number of corrective measures in the area of tax collection. Staff is of the view that the macroeconomic criterion will be met when there is evidence that the fourth quarter tax revenue performance is in line with staff projections and an agreement has been reached on a 2006 budget that is consistent with the authorities' macroeconomic objectives.

* The staff proposal was not endorsed by the Board. Executive Directors considered that Ethiopia, Madagascar, Nicaragua, Rwanda, and Senegal meet all three qualification criteria for MDRI relief and expressed their preparedness to approve such relief for each of these countries once the general MDRI decisions are effective.

- **Nicaragua**: Implementation of its Fund-supported program has not been satisfactory until recently, with the latest review completed in September 2004. The authorities have since made progress on remedial actions and staff is of the view that the macroeconomic criterion will be met when the next review under the PRGF arrangement is completed.

- **Rwanda**: Policy slippages have occurred since the fifth review under the PRGF arrangement was completed in August 2005. Staff is of the view that the criterion will be met when the next review under the PRGF arrangement is completed.

21. **Mauritania and Senegal meet the PRS criterion, but do not meet the macroeconomic and PEM criteria at this time**.*

- **Mauritania**: There is no Fund arrangement in place and the most recent one was cancelled at the request of the authorities before the first review could be completed. In light of the substantial deterioration that has taken place since the completion point, staff is of the view that a track record of sound macroeconomic policies needs to be established and proposes that this be achieved through a satisfactory six-month track record under a staff-monitored program (SMP) and a further six months under a PRGF-supported program or under a policy support instrument (PSI).** Mauritania's PEM system performance has also deteriorated since the completion point. Staff proposes remedial actions in the areas of budget formulation, execution, and reporting, and in public expenditure tracking. In addition, the satisfactory resolution of the data issues that have plagued Mauritania's relations with the Fund since early 2004 will be a requirement.

- **Senegal**: The last review under the PRGF arrangement was completed in March 2005. The third review has not been concluded pending agreements, inter alia, on transparency procedures for the use of public funds earmarked for the construction of a new airport, and 2006 budgetary expenditures that are not compatible with absorptive capacity. Staff is of the view that the

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* The Executive Board did not support this view. Executive Directors considered that Senegal meets all three qualification criteria for MDRI relief and expressed their preparedness to approve such relief for Senegal once the general MDRI decisions become effective.

** Directors agreed that Mauritania did not meet the macroeconomic and PEM criteria. However, they indicated that the remedial actions in these areas should be a track record of sound macroeconomic policies over a period of six months, together with actions in the areas of budget formulation, execution, and reporting, and the resolution of data issues with the Fund.

macroeconomic criterion will be met upon completion of the combined third and fourth reviews of the PRGF-supported program. In view of the weakening of procurement practices and the large size of extrabudgetary operations related to the new Dakar airport, the PEM criterion cannot be considered to have been met. Staff proposes specific remedial actions, in particular to strengthen transparency and accountability in procurement practices.*

IV. NEXT STEPS

22. **Individual country decisions cannot be taken, before the general MDRI decisions have become effective**, which itself is contingent on getting all the consents from all contributors to the PRGF Subsidy Account. Should all these consents be received in sufficient time, proposed decisions will be circulated to the Board for consideration at the scheduled December 21, 2005 Board meeting. (In such circumstance and based upon request for MDRI debt relief from qualifying members, the decisions establishing qualification will be proposed to become effective on January 3, 2006.)[14]

23. **If all consents are not received in time, country decisions would not be issued to the Board for the meeting on December 21**. Rather, the Board meeting would present an opportunity for Directors to discuss staff's current assessments in relation to the MDRI qualification criteria. In particular, with respect to those members for which staff have made an initial positive assessment, Directors could express their preparedness to approve MDRI debt relief for each of those members on a lapse-of-time basis up to a fixed date (e.g., January 31, 2006) if, by that date, the general MDRI decisions have become effective and the respective country assessments on the MDRI qualification criteria remain positive. Beyond this fixed date, a further Board meeting would be scheduled to consider a full re-assessment of eligible countries. The time limit on the assessment stems from the provision in the MDRI decision that a member’s track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy pertains to the six-month period *immediately preceding* the determination of qualification. With a time span longer than the proposed 30 days, the distance between the determination of qualification and the six-month period under assessment would increase, together with the risk that the intervening developments might invalidate the assessment. In cases where the Board determines that a member has not met all qualifying criteria, the summing up could identify the remedial measures that could allow subsequent qualification.

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[14] This date would allow debt delivery to start in early 2006, just before the first 2006 repayment/repurchase falls due for any of these 20 countries.

* The staff proposal was not endorsed by the Board. Executive Directors considered that Senegal meets all three qualification criteria for MDRI relief and expressed their preparedness to approve such relief for Senegal once the general MDRI decisions are effective.

24. The cost of MDRI debt relief for Cambodia and Tajikistan, the two non-HIPCS, at end-2005 is estimated at SDR 123 million. This is higher than the estimate presented in *The Multilateral Debt Relief Initiative (G-8 Proposal) and Its Implications for the Fund – Further Considerations* (SDR 110 million) as the latter assumed that these members would be eligible for debt relief at end-2006 rather than end-2005. The latest estimate also makes allowance for a small saving on interest subsidies that would have been needed in 2006 had debt relief been provided in line with the earlier assumption. In the event of the Board's approval of the staff proposal, the associated costs would be known and incurred now, and it would seem reasonable to seek the additional financing needed to cover these costs. The higher cost for these two members also has implications for the adequacy of the amount transferred to the MDRI-I Trust, as that amount (SDR 1.5 billion) included an allowance of only SDR 110 million for Cambodia and Tajikistan. To avoid the risk of a shortfall, it would be intended that the first part of the additional financing obtained to cover the costs for Cambodia and Tajikistan would be transferred to the MDRI-I Trust, while the remainder would be included in the PRGF-ESF Subsidy Account to maintain the Fund's lending capacity.

V. Issues for Discussion

25. **In view of proposals included in this paper:**

- Do Directors agree that Benin, Bolivia, Burkina Faso, Cambodia, Ghana, Guyana, Honduras, Mali, Mozambique, Niger, Tajikistan, Tanzania, Uganda, and Zambia meet the qualification criteria for debt relief from the Fund under the MDRI?
- Do Directors agree that Ethiopia, Madagascar, Mauritania, Nicaragua, Rwanda, and Senegal need to take the remedial measures proposed by staff to be reassessed in the future?
- Do Directors agree that additional financing of SDR 123 million should now be mobilized to meet the additional costs of providing MDRI relief to Cambodia and Tajikistan?