

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 the eligible 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 countries qualify. In January 2007, the Inter-American Development Bank (IADB) agreed to provide debt cancellations of US\$ 3.4 billion.

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 the 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, the Multilateral Debt Relief Initiative (MDRI) results in 80%-90% cancellation of their debt stock, reducing their PV of debt/exports ratio to below 50%-60%. However for the Latin American HIPCs, MDRI led to significantly less debt cancellation, until the IADB agreed to join MDRI and provide debt relief in January 2007.

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, ADF and IADB. For IDA and the ADF the annual debt service forgiven under MDRI is to be deducted from the country's annual disbursement allocation, so that the resource flows, after MDRI relief, remain the same. Thereafter, each country will receive a small increase in 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 IADB implementation will not provide additional funding, instead drawing its financing from its concessional resources`

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, 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 is to deliver its share of this debt relief and IDA approved the modalities for debt relief from 1 July 2006. In May 2006, the ADF approved its delivery mechanism, while the IADB agreed its modalities in January 2007.

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

1. INTERNATIONAL MONETARY FUND 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.

- The then eligible post-completion point HIPCs and eligible non-HIPCs as at end-2005 were required to reconfirm eligibility by meeting three conditions: (1) satisfactory 6-month PRGF performance, (2) satisfactory performance in implementing a PRSP and (3) no deterioration in the quality of public expenditure management (PEM) since completion point or over recent years for non-HIPCs. These additional conditions only applied to the post-completion point countries as at end-2005 because subsequently countries will be meeting these conditions in order to reach completion point.

As at end-2005, there were 17 eligible HIPC countries and all but Mauritania had met the performance criteria and qualified for IMF relief under the MDRI. 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, Malawi and Sierra Leone qualified for MDRI on reaching their completion points in 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 end-2006	
Post-HIPC countries qualifying for relief	Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone, 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, Haiti, São Tomé and Príncipe
Pre-decision point and potential countries	Central African Republic, Comoros, Côte d'Ivoire, Eritrea, Kyrgyz Republic, Nepal, Togo
Protracted arrears	Liberia, Somalia, Sudan

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 provides MDRI debt relief when a country achieves its HIPC completion point.

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

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 Countries					MDRI Potentially Eligible HIPCs				
Post-completion point HIPCs					Post-decision point HIPCs				
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	Haiti*	4	-	4	0
Madagascar	13	186	198	51	São Tomé & Príncipe	-	3	3	1
Malawi	15	67	82	48	Total	514	1,002	1,516	167
Mali	18	90	108	40	Pre-decision point HIPCs				
Mauritania	7	70	77	22	Central African Republic	-	-	36	16
Mozambique	34	120	154	70	Comoros	-	-	-	-
Nicaragua	70	133	203	68	Côte d'Ivoire	-	-	199	108
Niger	26	86	112	32	Liberia	-	-	730	19
Rwanda	47	29	76	33	Somalia	-	-	318	9
Senegal	8	137	145	73	Sudan	-	-	1,523	32
Sierra Leone	60	168	228	23	Togo	-	-	14	13
Tanzania	39	299	338	136	Total	0	0	2,821	197
Uganda	17	110	127	77	Total potential relief	514	1,002	4,338	364
Zambia	6	576	582	59					
Total	553	3,316	3,869	1,244					
Non-HIPCs									
Cambodia	-	82	82	18					
Tajikistan	-	100	100	31.2					
Total	0	182	182	49					
Total relief provided	553	3,499	4,052	1,292					

Source: IMF

* All eligible debt to be repaid by anticipated completion point of December 2006

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. WORLD BANK 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 applied 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 end-2006, there were 21 eligible HIPCs, as shown in Table 3 below.

Table 3: IDA Country Coverage for MDRI

Countries eligible as of end-2006	
Post-HIPC countries qualifying for relief	Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone, 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, Haiti, São Tomé and Príncipe
Pre-decision point and potential HIPCs	Central African Republic, Comoros, Côte d'Ivoire, Eritrea, Kyrgyz Republic, Liberia, Nepal, Somalia, Sudan, Togo

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 implemented its MDRI debt relief on 1 July 2006, at which time the qualifying post-completion point HIPCs had 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 2007 will receive irrevocable MDRI relief from IDA in the fourth quarter of 2007.

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.

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				Post-decision point HIPCs			
Benin	18	31	467	Burundi	1	3	13
Bolivia	30	62	1,027	Chad	8	29	506
Burkina Faso	16	27	497	Congo (Rep)	-	6	83
Cameroon	4	14	587	Congo (DR)	7	19	660
Ethiopia	18	39	1,582	Gambia	-	10	139
Ghana	67	119	2,019	Guinea	14	50	744
Guyana	4	8	128	Guinea-Bissau	-	5	85
Honduras	20	39	802	Haiti	-	6	268
Madagascar	42	81	1,197	São Tomé & Príncipe	0	1	25
Malawi	21	73	1,067	Total	30	129	2,523
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
Sierra Leone	3	8	262	Togo	-	-	294
Tanzania	60	111	1,898	Total	-	21	1,148
Uganda	62	116	1,882	Potential HIPCs			
Zambia	25	51	1,269	Eritrea	-	1	111
Total relief provided	517	1,067	19,307	Kyrgyz Rep.	-	15	299
				Nepal	-	32	749
				Total	-	48	1,159
				Total potential relief	30	198	4,830

Source: World Bank

2.3 Implications for Future Flows

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 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 of Benin is illustrated as follows:

- 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.

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.

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
Malawi	224	21	203	5.5	209
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
Sierra Leone	92	3	89	2.3	91
Tanzania	1,057	60	997	26.1	1,023
Uganda	735	62	673	18.1	691
Zambia	188	25	163	4.6	168
Total	6,951	517	6,434	171	6,605
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
Haiti	106	-	106	2.6	109
São Tomé & Príncipe	4	0	4	0.1	4
Total	1,556	30	1,526	38	1,564
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
Potential HIPCs					
Eritrea	76	-	76	1.9	78
Kyrgyz Rep.	81	-	81	2.0	83
Nepal	526	-	526	13.0	539
Total	683	0	683	17	700
Total	10,199	547	9,652	252	9,904

Source: World Bank

3. AFRICAN DEVELOPMENT FUND 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 applied 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 end-2006, there were 17 post-completion HIPCs (Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda and Zambia) which have qualified for MDRI relief from the ADF, as shown in Table 6. Cameroon, Malawi and Sierra Leone became eligible for MDRI relief on reaching its completion point in 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 was 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 was 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				Post-decision point HIPCs			
Benin	2.1	2.2	360	Burundi	-	0.3	10
Burkina Faso	2.3	2.4	342	Chad	1.4	3.2	331
Cameroon	1.2	2.5	229	Congo (Rep)	-	-	10
Ethiopia	5.8	6.1	738	Congo (DR)	-	1.9	154
Ghana	5.8	6.0	480	Gambia	-	1.3	173
Madagascar	2.9	3.0	370	Guinea	-	5.0	312
Malawi	1.7	3.6	399	Guinea-Bissau	-	-	83
Mali	4.7	4.7	555	São Tomé & Príncipe	0.4	0.8	46
Mauritania	1.8	2.0	259	Total	1.8	12.5	1,119
Mozambique	3.4	3.9	542	Pre-decision point HIPCs			
Niger	1.9	1.9	193	Central African Republic	-	-	132
Rwanda	1.6	1.7	109	Comoros	-	-	35
Senegal	4.4	6.6	409	Côte d'Ivoire	-	-	285
Sierra Leone	0.9	1.9	141	Liberia	-	-	19
Tanzania	4.0	4.0	608	Somalia	-	-	60
Uganda	3.8	4.2	514	Sudan	-	-	216
Zambia	2.4	2.6	241	Togo	-	-	119
Total relief provided	50.7	59.2	6,489	Total	0	0	867
				Potential HIPCs			
				Eritrea	-	-	67
				Total potential relief	2	12	2,052

Source: ADF

3.3 Implications for Future Flows

As with IDA, ADF's MDRI relief is not providing truly additional resources. As with 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.

4. IADB IMPLEMENTATION OF MDRI

4.1 Eligible and Qualifying Countries

The IADB debt relief is to be provided to post-completion point HIPC countries which are eligible for its FSO concessional lending window. As at the end-2006, there were four eligible countries (Bolivia, Guyana, Honduras and Nicaragua) and Haiti will qualify when it reaches its HIPC completion point.

4.2 Eligible Debt and Timing of Debt Relief

The IADB will provide 100% cancellation of the eligible FSO disbursed outstanding debt of US\$ 3.37 billion, as of end-December 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 IADB relief is effective from 1 January 2007 for post-completion point countries.

4.3 Implications for Future Flows

The IADB relief does not provide additionally because of the way in which it is being implemented whereby the cost of the relief is being met from internal FSO resources. This is being achieved by reducing eligible countries' total resource allocations by 25% and access to new concessional resources, cancelling undisbursed loan approvals and exchanging part of the debt relief against countries' local currency contributions to the FSO. The details of these changes are as follows:

- There is to be a 25% reduction in total IADB loan allocations for Bolivia, Guyana, Honduras and Nicaragua (excluding Haiti which is to receive mainly grants, see below). The effect of this is to reduce the IADB's overall allocation of resources from \$400 million per annum to \$288 million, as shown in Table 8 below.
- For Bolivia, Guyana, Honduras and Nicaragua, the lower level of resources will be in the form of parallel loans, which is a blend of concessional FSO and nonconcessional OC loans. Up to now all four countries have been able to access solely concessional FSO resources, however with this change the concessionality of their future IADB borrowings will be reduced as they will now be borrowing a significant proportion of new resources on OC terms. The proportion of FSO and OC resources making up the new parallel loans from 2007-2015 will be country specific, as shown in Table 7 below. For the four post-HIPC countries this means FSO resources will total approximately US\$ 88 million per annum with the remaining being on non-concessional OC terms.

Table 7 Lending Mix for Post HIPCs Under DSF as of 2007

Country	FSO allocation	OC allocation
Bolivia and Honduras	30%	70%
Guyana and Nicaragua	50%	50%
Haiti: 2007-2010	\$50 million in grants	
2011+	\$20 m in grants/ \$20 million FSO loans	

Source: IADB

- The country specific FSO – OC lending mix is to be determined on the basis of the BWI's Debt Sustainability Framework (DSF) and the IADB's Performance Based Allocation (PBA) system, which is to be reviewed and updated to be more in line with that of IDA. On this basis, better performing countries (Bolivia and Honduras) are expected to benefit from higher resource allocations, while poorer performers (Guyana and Nicaragua) may lose.
- For Haiti, new resources will consist of up to \$50 million in annual grants for the years 2007-2010 and thereafter Haiti will have a maximum allocation of \$20 million in grants and \$20 million in FSO loans annually.
- For all the eligible countries, the undisbursed balances of approved but non-committed loans, as of 1 January 2007, are cancelled. If the total cancelled amount is less than US\$ 210 million, then there will be a proportional reduction in future loan approvals and disbursements on a country-by-country basis to make up the difference between the amount cancelled and US\$ 210 million. The undisbursed balances to be cancelled are those which are not being disbursed in a timely fashion and are not likely to meet their development objectives.
- For the five countries, part of the IADB debt relief (totalling US\$ 258 million) is to be exchanged against existing funds which are due to be repaid to the IADB in local currency in 2010-13. These local currency conversions are to be cancelled and the amounts offset against the debt service due on current FSO loans. If the debt service due is less than the currency conversion requirement, then the remaining obligation will be carried forward. The implications of this are set out in Table 8 below.
- For the period 2007-10, \$30 million of FSO resources will be allocated to technical assistance and from 2010 to 2015 this will be \$20 million.
- In addition, the IADB is to reduce the administration expenses born by the FSO to 15% of the total IADB administrative expenses through to 2010, with a further reduction to 11.25% by 2015. The cost of this will average about \$75 million per annum.

Table 8 illustrates the main impacts of the IADB's MDRI on resource flows to regional HIPCs, whereby Bolivia and Honduras tend to benefit while Guyana, Haiti and Nicaragua will not. However Table 8 does not include the impact of higher debt service costs of borrowing on OC terms, which is expected to have the biggest effect on Bolivia and Honduras.

Table 8 Estimated Impact of IADB's MDRI, 2007-2015

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bolivia									
FSO debt service savings	27.0	27.0	27.0	27.0	23.0	23.0	23.0	23.0	23.0
2006 IDB resource allocation	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9	75.9
25% allocation reduction	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Local currency conversion	0.0	0.0	0.0	27.0	26.0	26.0	26.0	0.0	0.0
Net impact on resources	8.0	8.0	8.0	-19.0	-22.0	-22.0	-22.0	4.0	4.0
Guyana									
FSO debt service savings	10.0	10.0	10.0	10.0	17.0	17.0	17.0	17.0	17.0
2006 IDB resource allocation	58.6	58.6	58.6	58.6	58.6	58.6	58.6	58.6	58.6
25% allocation reduction	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7
Local currency conversion	0.0	0.0	0.0	0.5	0.5	0.5	0.5	0.0	0.0
Net impact on resources	-4.7	-4.7	-4.7	-5.2	1.9	1.9	1.9	2.4	2.4
Haiti									
FSO debt service savings	0.0	14.0	14.0	14.0	27.0	27.0	27.0	27.0	27.0
2006 IDB resource allocation	83.1	83.1	83.1	83.1	83.1	83.1	83.1	83.1	83.1
New allocation (\$50 m to 2010, \$40m after)	50.0	50.0	50.0	40.0	40.0	40.0	40.0	40.0	40.0
Local currency conversion	0.0	0.0	0.0	8.0	7.0	7.0	7.0	0.0	0.0
Net impact on resources	-33.1	-19.1	-19.1	-37.1	-23.1	-23.1	-23.1	-16.1	-16.1
Honduras									
FSO debt service savings	31.0	31.0	31.0	31.0	65.0	65.0	65.0	65.0	65.0
2006 IDB resource allocation	87.9	87.9	87.9	87.9	87.9	87.9	87.9	87.9	87.9
25% allocation reduction	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Local currency conversion	0.0	0.0	0.0	20.0	18.0	18.0	18.0	0.0	0.0
Net impact on resources	9.0	9.0	9.0	-11.0	25.0	25.0	25.0	43.0	43.0
Nicaragua									
FSO debt service savings	18.0	18.0	18.0	18.0	14.0	14.0	14.0	14.0	14.0
2006 IDB resource allocation	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5
25% allocation reduction	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6
Local currency conversion	0.0	0.0	0.0	12.0	12.0	12.0	12.0	0.0	0.0
Net impact on resources	-5.6	-5.6	-5.6	-17.6	-21.6	-21.6	-21.6	-9.6	-9.6
Total									
FSO debt service savings	86.0	100.0	100.0	100.0	146.0	146.0	146.0	146.0	146.0
2006 IDB resource allocation	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
Post MDRI allocation	287.7	287.7	287.7	277.7	277.7	277.7	277.7	277.7	277.7
Local currency conversion	0.0	0.0	0.0	67.5	63.5	63.5	63.5	0.0	0.0
Net impact on resources	-26.3	-12.3	-12.3	-89.8	-39.8	-39.8	-39.8	23.7	23.7

Assumes Haiti reaches HIPC completion point in 2007

Excludes cost of lower grant element from new parallel loans, cancellation of undisbursed loan commitments and reduction in admin expenses covered