

The IMF's Share of the Multilateral Debt Relief Initiative

December 2005

Summary of Measures for Implementation of MDRI

According to an IMF Public Information Notice dated 8th December 2005, IMF implementation of the MDRI (G8 debt deal) depends on:

1. Consent of the 43 contributors to the Subsidy Account of the PRGF Trust, which will cover most of the cost to the IMF of the MDRI.
2. Individual Board decisions confirming qualification of eligible countries.

The cut-off date on eligible debt under the MDRI will be end-2004 but the effective delivery date for debt relief would be decided on a case by case basis. The 18 HIPCs at CP could benefit from MDRI relief at the beginning of 2006, subject to the Board's confirmation of their qualifying for relief.

IMF executive directors stressed that conditions for qualifying for the MDRI should be consistent for all eligible countries, ie: the same across pre and post completion point HIPCs and non-HIPCs. Therefore, to benefit from the MDRI, post-CP HIPC's performance in 3 areas should not have deteriorated substantially since reaching CP. The areas are:

- Macroeconomic performance
- Implementation of a PRS or similar framework
- Public expenditure management systems.

A minimum 6 month track record on the first 2 areas would be needed to qualify for debt relief. For countries with an IMF arrangement in place assessment would be based on the outcome of the latest review under the programme, so long as it was completed within the last 6 months. In addition, HIPCs must be current with their scheduled repayments to the IMF (there was a concern on the Board that for pre-CP HIPCs the benefits of MDRI could be substantially reduced because these countries would be expected to remain current with their scheduled repayments of IMF debts before they reach CP).

IMF staff in collaboration with World Bank staff will produce, by the end of 2005, an assessment on the 18 post-CP HIPCs and propose to the Board a list of those countries that would qualify immediately for MDRI debt relief. Corrective actions would be proposed for those whose performance has deteriorated substantially since CP in any of the 3 areas.

Eligible country example: Tanzania

As a post-CP HIPC what matters for Tanzania is whether there has been any “substantial deterioration” in any of the 3 stated areas.

Tanzania has a three-year arrangement with the IMF under the PRGF. The fourth review of this arrangement was published in July 2005¹. A strong performance was recorded and all targets but one were met.

“Performance under the program has remained strong. All end-March 2005 quantitative performance criteria and indicative targets were met, and all structural performance criteria and benchmarks through June 2005 were met or completed with minor delays with one exception. Plans to submit amendments to key banking legislation to parliament were delayed. The authorities have requested waivers and intend to complete these actions by end-July.”²

The review noted that Tanzania’s macroeconomic performance in 2004 was stronger than expected, with growth of 6.7% against a target of 6.3%. Fiscal performance was also commended with a lower than predicted deficit.

Tanzania’s poverty reduction strategy also received IMF staff endorsement. The review commented that the new Poverty Reduction Strategy (MKUKUTA) was mainly targeted at the MDGs, and improved on the previous strategy by focusing on clusters of outcomes, taking account of sectoral linkages. The new PRS put more emphasis on growth targeted to poverty reduction, with policy interventions in key areas.

On the basis of this review, it could be assumed that Tanzania would satisfy the qualification criteria for immediate benefit from the MDRI. However, with the requirement for a review within the last 6 months, it is quite possible that a more recent review of Tanzania’s performance will be necessary, especially if there is any delay to the start of the IMF’s MDRI implementation (eg: because of a delay in obtaining the consent of the contributors to the Subsidy Account of the PRGF Trust). The sixth scheduled review of Tanzania’s IMF arrangement is due in February 2006.

¹ <http://www.imf.org/external/pubs/ft/scr/2005/cr05291.pdf>

² These actions were completed on schedule.