

**MDRI Financing Status:
Options for Addressing a Possible Donor Financing Shortfall**

**International Development Association
IDA Resource Mobilization Department**

December 15, 2009

Selected Abbreviations and Acronyms

AfDF	African Development Fund
CFPIR	IDA Resource Mobilization Department
FY	Fiscal Year
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IoC	Instrument of Commitment
MDRI	Multilateral Debt Relief Initiative
SDR	Special Drawing Rights

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I. Introduction

1. In the spring of 2006, donors and shareholders approved IDA's participation in the Multilateral Debt Relief Initiative (MDRI), which provides 100 percent cancellation of eligible debt owed to IDA by countries reaching the Completion Point for the Heavily Indebted Poor Countries (HIPC) Initiative. Starting on July 1, 2006 and over the next four decades of MDRI implementation, IDA is canceling an estimated nominal amount of SDR 23.8 billion (equivalent to USD 36.2 billion) of credit reflows from countries eligible for HIPC debt relief.¹ The objectives of the MDRI are twofold: (i) deepening debt relief to HIPC countries while safeguarding the long-term financial capacity of IDA and other participating multilateral institutions; and (ii) encouraging the best use of additional donor resources for development by allocating them to low-income countries on the basis of policy performance. Debt relief provided under the MDRI is in addition to existing debt relief commitments by IDA and other creditors under the Enhanced HIPC Debt Initiative.

2. Donors have agreed to provide full and timely compensation on a dollar-for-dollar basis to IDA for forgone credit reflows due to debt cancellation under the MDRI. These resources constitute subscriptions and contributions under the 2006 replenishment to finance the MDRI. As of June 30, 2009, IDA has received donor commitments to the MDRI in the amount of USD 32.2 billion at the agreed replenishment foreign exchange reference rates,² representing 85.8 percent of total financing requirements based on the updated cost estimates for the MDRI as of September 30, 2007. This includes firm, unqualified donor commitments covering 17.9 percent of the total financing requirements. Contributions provided under qualified commitments become available for IDA's commitment authority only when these commitments become unqualified, i.e. when necessary parliamentary or legislative approvals are obtained.

3. The IDA15 commitment authority includes USD 6.3 billion of MDRI compensation required from donors to replace credit reflows lost due to the MDRI.³ While many donors have secured the required approvals for issuing their IoCs for the MDRI, several donors have indicated that they will not be able to provide the full unqualified commitment for this period. If donors fail to provide firm (i.e., Unqualified) MDRI financing commitments in the required amount, this may impact the total amount available for IDA15 commitments at a time when these funds are most needed by low income countries severely impacted by the financial crisis.

4. This paper reviews several options on how to deal with this potential gap in firm donor financing – and based on initial feedback from donor and client consultations during the IDA15 Mid-term Review – concludes with Management's recommended option.

¹ "Debt Relief Provided by IDA under the MDRI and HIPC Initiative: Update on Costs and Donor Financing as of June 30, 2009", IDA/SecM2009-0548, October 6, 2009.

² Foreign exchange rates are based on applicable MDRI and IDA15 replenishment reference rates.

³ This includes a financing shortfall of USD 2.9 billion during the IDA14 period. To cover this shortfall, IDA had utilized internal resources in order not to have to reduce its commitment authority envelope to IDA borrowers during that period.

Background on the Establishment of the MDRI

5. The MDRI provides up-front, irrevocable debt stock cancellation. Once a HIPC country reaches the so-called Completion Point under the HIPC Initiative, the MDRI debt relief is provided by IDA. In total, IDA is estimated to provide some USD 36.2 billion of MDRI debt cancellation over the 40-year period of the MDRI. This is in addition to some USD 16.2 billion of debt relief provided by IDA under the HIPC Initiative. MDRI implementation started as of July 1, 2006.
6. Compensation from donors to IDA is necessary in order for the MDRI to provide tangible benefits to poor countries. Donor compensation ensures that IDA's revolving credit fund does not become smaller due to lost reflows and that smaller amounts of new financing to poor countries in the future do not result in IDA's recipient countries in effect paying for their own debt relief. Donors, hence, pledged to compensate IDA's MDRI costs on a dollar-for-dollar basis and to provide such compensation following established replenishment procedures agreed under the separate MDRI replenishment.
7. The amount of donor compensation required during a given replenishment is determined by the manner in which IDA commits reflows. Through its Advance Commitment Scheme, which has been in place for over two decades, IDA makes commitments against future credit reflows and other internal resources in recognition of the fact that credits disburse over several years and that cash is not needed in hand at the time of commitment. To preserve IDA's advance commitment capacity, Deputies acknowledged the need to provide unqualified, firm MDRI financing commitments over a rolling decade, thereby matching the disbursement period of each future IDA replenishment.⁴
8. Specifically, in the context of the MDRI replenishment, donors recognized that: "It will be critical to provide an Unqualified Commitment for subscriptions and contributions in FY07 and 08". For the remainder of the first decade of MDRI implementation (FY09-16), donors recognized that: "Firm, Unqualified Commitments are also needed over this period, resulting in the provision of some portion of Qualified Commitments. ... Participants encouraged IDA's donors to take all necessary steps in successive replenishments to provide firm financing on a rolling basis."⁵ In the context of the IDA15 replenishment and to back IDA15 commitment authority, Deputies reaffirmed the urgent need to provide additional donor contributions for the MDRI replenishment so as to cover IDA's debt relief costs due to the MDRI during the IDA15 disbursement period (FY09-19) as agreed under the MDRI.⁶ This approach is similar to regular IDA replenishments where donors provide up-front commitments for subsequent payment of their contributions to IDA (e.g., over the standard 9-year encashment period for IDA15).
9. While donor financing arrangements for the MDRI replenishment broadly follow established procedures for IDA's regular replenishments, they differ in one important respect. Under the MDRI, a donor is allowed to deposit a Qualified Commitment without securing necessary legislative approvals. The Qualified Instrument of Commitment (IoC) under the

⁴ Paragraph 19 (b) of Resolution 211 of IDA's Board of Governors: "Additions to Resources: Financing the Multilateral Debt Relief Initiative" adopted April 21, 2006.

⁵ Paragraphs 19 (a) & (b) of Resolution 211 of IDA's Board of Governors: "Additions to Resources: Financing the Multilateral Debt Relief Initiative" adopted April 21, 2006.

⁶ Paragraph 115 of "Additions to Resources: Fifteenth Replenishment," February 28, 2008.

MDRI states that the donor's financing pledge is provided subject to the donor obtaining "the necessary legislative and budgetary approvals." This standard is less stringent than for regular IDA replenishments where a Qualified IoC requires prior 'authorization' by the donor's legislature. Under both the MDRI and IDA's regular replenishments, an Unqualified (i.e., firm) Commitment does require full budgetary authorization and appropriation before the IoC can be issued.

10. Under the MDRI replenishment,⁷ IDA needs to receive unqualified (i.e., firm, appropriated) donor commitments in order for IDA to extend new credits and grants against the donor financing. The same standard applies for donor contributions to IDA's regular replenishments. Therefore, while donors are allowed to deposit qualified commitments for the MDRI, IDA cannot use qualified commitments as available financing for extending new credits and grants.

II. MDRI Impact on IDA14 Commitment Authority

11. Over the first decade of MDRI implementation, MDRI debt relief deprives IDA of credit reflows of about USD 7.2 billion in nominal terms.⁸ These reflows had already been committed in advance for disbursements under IDA14 and previous IDA replenishments. The loss of reflows due to the MDRI has been partially off-set by the receipt of unqualified donor financing commitments (IoCs) toward the MDRI replenishment, leaving a gap of USD 2.9 billion. In addition, there is a structural financing gap in the MDRI financing package of 7.86 percent over the 40-year MDRI period, which results from the agreement to apply IDA13 burden shares for purposes of MDRI financing (and consequently reflects the financing gap in IDA13). For the IDA14 disbursement period, the structural financing gap was USD 523 million.

12. To ensure that the IDA's commitment authority remained unchanged for IDA14, in September 2007, IDA's Executive Directors approved the use of up to SDR 1.9 billion (equivalent to USD 2.9 billion) from internal resources (i.e., additional advance commitment of future credit reflows) to cover a possible donor commitment shortfall. The actual amount needed was SDR 1.8 billion.

III. MDRI Impact on IDA15 Commitment Authority

13. During the IDA15 replenishment negotiations, donors discussed the need for mobilizing additional, unqualified donor financing commitments of USD 6.3 billion (SDR 4.1 billion) over the IDA15 disbursement period (FY09-19) so as to maintain IDA15 commitment authority. This amount consists of: (a) firm financing gap from IDA14 for the period of FY09-16, estimated at USD 2.9 billion (SDR 1.9 billion); and (b) firm financing for the period of FY17-19 so as to cover the outer years of the IDA15 disbursement period, estimated at USD 3.4 billion (SDR 2.2 billion). A breakdown of the commitment authority is provided in **Table A** below.

⁷ Paragraph 7 of Resolution 211 of IDA's Board of Governors: "Additions to Resources: Financing the Multilateral Debt Relief Initiative" adopted April 21, 2006.

⁸ FY07-16 period, i.e., the IDA14 disbursement period but excluding FY06, as the MDRI implementation started as of July 1, 2006.

Table A: IDA15 Commitment Authority

	<u>SDR billion</u>	<u>USD equiv. billion</u>
New Donor Pledges	16.5	25.4
<i>Donor MDRI contributions - firm financing commitments required</i>		
<i>> gap for IDA14 disbursement period (FY09-16)</i>	1.9	2.9
<i>> additional amount for IDA15 disbursement period (FY17-19)</i>	2.2	3.4
<i>Subtotal MDRI contributions</i>	<u>4.1</u>	<u>6.3</u>
Total donors	20.6	31.7
Credit Reflows	4.1	6.3
Agreed IBRD/IFC transfers	<u>2.4</u>	<u>3.9</u>
Total	27.2	41.9

IV. Donor Financing Commitments for the MDRI

14. For the IDA15 replenishment discussions, MDRI cost estimates and donor payment schedules were based on data updated as of September 30, 2007. However, the value of IDA's lost credit reflows under the MDRI will continue to fluctuate over the 40-year period. This is due, inter alia, to adjustments of the actual volume of debt cancelled depending on the exact timing of when HIPC countries reach their completion points, countries withdrawing/added and to changes in foreign exchange rates. Consequently, the MDRI financing arrangements include a mechanism to adjust the compensatory amounts payable by donors in conjunction with every regular IDA replenishment.

15. Donors have requested continued monitoring of donor contributions provided to the MDRI. For transparency, such donor contributions are recorded separately from regular IDA replenishment contributions. Donor contributions to the MDRI are reported in IDA's fiscal year-end financial statements, in addition to management's comprehensive annual reports on the debt relief delivered by IDA under HIPC and the MDRI and the amount of compensatory donor resources received.

16. As of June 30, 2009, donors have provided firm, unqualified financing commitments representing 53.6 percent of the updated projected MDRI costs over the IDA15 disbursement horizon (FY09-19) (**Table B**). Another 35.4 percent of forgone credit reflows over that horizon are covered by qualified financing commitments, bringing the total donor financing commitments to 89 percent of MDRI costs over the disbursement horizon of IDA15.

Table B: MDRI Financing Summary – IoCs Received as of June 30, 2009^{a/}
(in USD million equivalent)

Financing Received from IDA Donors	FY07-08		IDA15 Period FY09-19		FY20-44		FY07-44 (Total MDRI Costs)	
	USDm	in%	USDm	in%	USDm	in%	USDm	in%
Unqualified Financing	740.27	98.6%	5,258.92	53.6%	708.85	2.6%	6,708.04	17.9%
Qualified Financing	-	0.0%	3,477.37	35.4%	22,058.13	81.7%	25,535.50	68.0%
Sub-Total IOCs Received	740.27	98.6%	8,736.29	89.0%	22,766.98	84.3%	32,243.54	85.8%
IOCs Not Received	1.05	0.1%	16.73	0.2%	45.96	0.2%	63.74	0.2%
IOC Shortfall	-	0.0%	284.78	2.9%	2,021.64	7.5%	2,306.42	6.1%
Financing Gap	9.70	1.3%	782.75	8.0%	2,162.15	8.0%	2,954.60	7.9%
Sub-Total To Be Committed	10.75	1.4%	1,084.26	11.0%	4,229.75	15.7%	5,324.76	14.2%
Total	751.02	100.0%	9,820.55	100.0%	26,996.73	100.0%	37,568.30	100.0%

Note: Amounts exclude surplus resulting from financing received higher than donor's target contributions under the current cost structure.

a/ Based on IDA15 MDRI cost estimates as of September 30, 2007

17. Sixteen donors (almost half of all MDRI donors) have not been able to provide their Unqualified IoCs to compensate IDA for forgone reflows over the IDA15 disbursement period, as of June 30, 2009 (Table C).

Table C: IDA Donor Shortfall of Unqualified MDRI Financing Commitments for the IDA15 Disbursement Period
(as of June 30, 2009)⁹

Donor	MDRI Firm (Unqualified) Financing shortfall for the IDA15 disbursement period (FY09-19)
United States	\$1,857.37 million
Japan	\$1,060.41 million
Italy	\$364.16 million
Belgium	\$151.28 million
France	\$131.02 million
Switzerland	\$106.04 million
Netherlands	\$60.84 million
Saudi Arabia	\$24.92 million
Singapore ^{1/}	\$14.81 million
Other donors ^{2/}	\$9.08 million
Unqualified Financing Shortfall	\$3,779.93 million
Financing Gap	\$792.45 million
Total	\$4,572.38 million

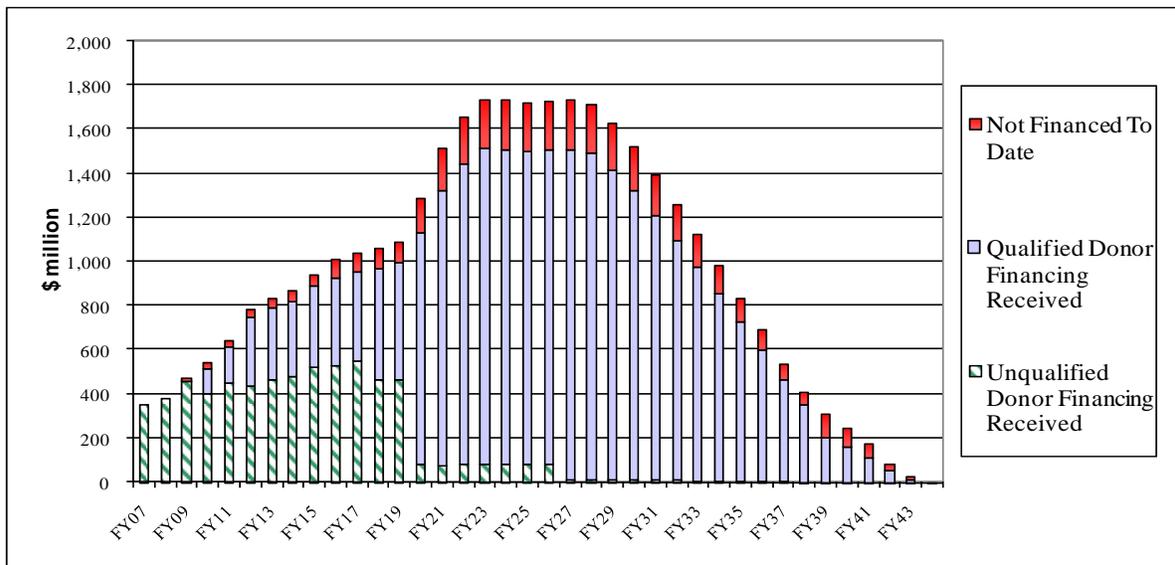
1/ Also covers donor's FY07-08 financing gap
2/ Includes Cyprus, Hungary, Iceland, Latvia, Poland, Slovak Republic, and Slovenia.
Note: USD amounts are provided using the applicable MDRI and IDA15 replenishment reference exchange rates.

⁹ At the date of this paper, Belgium and the Netherlands are in the process of submitting revised instrument of commitments for the IDA15 disbursement period.

18. Over the 40-year period of the MDRI, aggregate donor financing commitments received are currently equivalent to 85.8 percent of total estimated MDRI costs of IDA; this includes unqualified, firm commitments covering 17.9 percent of total estimated MDRI cost for the full 40 years. **Chart 1** illustrates the time profile of required donor financing commitments to the MDRI and the current level of donor financing commitments received. **Annexes 1 and 2** additionally provide a listing of the total financing received from all donors as of June 30, 2009.

19. IDA has maintained an ongoing dialogue with donors regarding their commitments. Donors have made significant efforts over the last few years to provide the needed financing during the initial stage of the MDRI replenishment and in updating their commitments based on the revised costs provided during the IDA15 negotiations. Total, aggregate MDRI financing commitments have increased substantially from the 70 percent level of September 2007, following the receipt of revised IoCs from twenty-two donors.¹⁰ Some recent achievements include those of Canada, which in 2008 submitted a firm, unqualified commitment for FY09-26, beyond the 10-year period required for IDA15, and additionally provided a qualified commitment for the remainder of the 40 year period. In 2009, for the first time, the U.S. Congress separately authorized contributions to the MDRI, in addition to authorizations for the IDA15 replenishment. This authorization is for the three year period FY09-11 and requires appropriations for the contributions to be made on an annual basis. Similarly, Japan submitted an unqualified firm commitment for the three year period FY09-11 and additionally provided a qualified commitment for the remainder of the 40 year period. Many other donors who had already provided a qualified commitment for the full 40 year period updated their commitments to reflect the revised costs in addition to extending the time period of the firm, unqualified commitment.

**Chart 1: Level of Donor Financing Commitments to the MDRI
(as of June 30, 2009; in USD million equiv.)**



¹⁰ The donors include the following IDA members: Australia, Austria, Canada, Czech Republic, Denmark, Finland, Germany, Greece, Japan, Republic of Korea, New Zealand, Norway, Poland, Portugal, Saudi Arabia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom and United States.

20. Each donor's share of MDRI financing is based on IDA13 burden shares, resulting in a financing gap of 7.86 percent. This gap equals USD 3.0 billion (SDR 1.9 billion) over the 40-year MDRI implementation period and will require review by donors, so as to avoid a cut in IDA's financial capacity. For the IDA15 disbursement period, the financing gap equals USD 0.8 billion (SDR 0.5 billion). This financing gap, plus the gap in financing created by the lack of receipt to date of firm, unqualified commitments from donors for the IDA15 disbursement period of USD 3.8 billion (SDR 2.5 billion), results in a total financing shortfall of USD 4.6 billion (SDR 3.0 billion).

V. Options for Dealing with the MDRI Financing Shortfall

21. Feasible options to deal with the total MDRI financing shortfall of currently USD 4.6 billion (SDR 3.0 billion) for the IDA15 disbursement period include the following:

- Lowering IDA15 commitment authority during the final year (FY11) by the expected shortfall in firm MDRI financing;
- Asking IDA's Executive Directors to approve the use of additional internal resources for IDA15 to cover this shortfall (the solution adopted at the end of the IDA14 period when there was a financing gap); or
- Similar to the African Development Fund, allowing 85 percent of the amount of qualified commitments for the MDRI to be counted towards IDA's commitment authority through amendment of the resolution of the Board of Governors for the MDRI replenishment;
- A combination of the solutions above.

The options present a difficult set of choices. While each option resolves the issue at hand, it also raises additional challenges which are presented below.

22. **Lowering Commitment Authority.** The first option would have a significant and negative impact on IDA recipient countries. The reduction of more than 10 percent of overall IDA resources in the final year of the IDA15 replenishment would have severe consequences since it would represent a 30 percent cut in overall available commitment authority in FY11. Given that many countries have needed to significantly frontload resources as a consequence of the financial crisis, this would result in even greater percentage reductions for selected countries. Hence, this is clearly not a preferable course of action.

23. **Using Additional Internal Resources.** The second option could be accommodated under the current MDRI framework but would merely defer the issue to the future and continue to increase the size of the problem until it might become unmanageable. It would result in lower amounts of internal resources being available for the IDA16 replenishment should donors not subsequently deliver on their firm MDRI commitments by the end of the IDA15 period. This option would also further increase the amount of MDRI financing needed from donors during IDA16. The continued increase in the use of internal resources may also weaken IDA's ability to support future replenishments with an adequate volume of internally-generated resources and could ultimately impact on its ability to finance disbursements on commitments provided under past and current replenishments.

24. **Committing 85 percent of Qualified Instruments of Commitment.** The third option, to allow for 85 percent of the amount of the qualified donor IoCs to be used for commitment authority, would harmonize with the current policy of the African Development Fund. This would still require IDA to make up the remaining donor shortfall of 15 percent of qualified donor IoCs and the structural financing gap through allocation of additional internal resources. Based on the qualified commitments of USD 3.5 billion (SDR 2.3 billion) for the IDA15 disbursement period received as of June 30, 2009, this proposal would allow approximately USD 3.0 billion (SDR 1.9 billion) to be applied towards IDA15 commitment authority. Therefore, the remaining shortfall of USD 1.6 billion (SDR 1.1 billion) would require that authorization be sought from Executive Directors for the allocation of added internal resources.

25. This option would also raise important concerns. First, allowing IDA to make financing commitments against qualified MDRI IoCs from donors would be a weaker standard than under regular IDA replenishments, where commitment of funding by IDA is limited to firm, unqualified donor IoCs that have been fully authorized and appropriated by donors. This may be seen as leading to a potential lowering of the standard of commitment for future IDA replenishments. Second, while donors have already recognized that the ability to provide binding financial commitments for the entire duration of the MDRI varies from donor to donor, those donors that have already provided firm, long-term financing commitments for the MDRI may be concerned about fairness and equity if financing standards for donors are now lowered for the MDRI.

26. Management's recommendation of the third option arises from the fact that to-date all donors that have provided their MDRI IoCs – whether qualified or unqualified – have fully delivered on these commitments through their annual payments for the MDRI. Against this track record, and also in light of donors agreeing to this approach for the AfDF, it would seem appropriate to harmonize with the AfDF and commit against at least 85 percent of the Qualified IoC amounts received. Moreover, given that IDA's internal resources will still be used for the remaining 15 percent, IDA would continue to work closely with all donors to ensure that, as far as possible, qualified commitments become firm and far-reaching financial commitments as allowed for by their legislative and appropriation processes.¹¹

27. This option would entail adoption by IDA's Board of Governors of an amendment to the existing MDRI resolution.¹² A draft of the proposed amendment is attached at Attachment I. For ease of reference, the main text of the MDRI Resolution is attached in Attachment II.

28. A majority of donor and client countries indicated support for this approach at the IDA15 Mid-term Review in order to align IDA practices with those of the AfDF and mitigate the risk that IDA might need to reduce commitment authority during the global financial crisis. It was also stressed that this in no way affected the commitments made by every donor to meet the agreed "dollar for dollar" compensation for the MDRI, and to firm up their commitments to the extent permitted under their legislative processes. Participants at the IDA15 Mid-term Review also stressed that this change would apply only to MDRI commitments and would not be a precedent for commitments to IDA's regular replenishments. Management agreed to

¹¹ Paragraph 19 (c) of Resolution 211 of IDA's Board of Governors: "Additions to Resources: Financing the Multilateral Debt Relief Initiative" adopted April 21, 2006.

¹² The decision to make such amendment should be taken by a two-thirds majority of IDA's total voting power.

periodically review this practice and its effects going forward and to report back to the Board of Executive Directors and donors on implementation experience. The portion of the MDRI qualified commitments that would be applied for IDA's commitment authority would be included within the annual review of IDA's commitment authority framework.

VI. Recommendations

29. Management recommends that the Executive Directors:
- (i) Approve the draft Report set out in Attachment I and recommend to the Board of Governors the amendment to the MDRI Resolution included in Attachment I of this report; and authorize the Vice President and Corporate Secretary to submit them to the Board of Governors for a vote without meeting;
 - (ii) subject to adoption by the Board of Governors of the amendment referred to above, approve counting 85 percent of MDRI qualified commitments for IDA's commitment authority; and
 - (iii) approve the use of internal resources of IDA in an amount up to SDR 1.1 billion (equivalent to USD 1.6 billion at the effective replenishment exchange reference rates) for the IDA15 period to cover the remaining MDRI financing shortfall.

International Development Association
Donor Financing of IDA's Forgone Reflows due to the MDRI:
Firm Financing Required through FY19 ^{a/}
as of June 30, 2009
(USD equivalent millions)

Donors	Shares	A	B	B-A
		Firm Financing Commitments Received (Unqualified)	Amounts required through FY19	Firm Financing required through FY19
Australia	1.61%	170.21	170.21	-
Austria	0.78%	82.46	82.46	-
Belgium	1.55%	12.59	163.87	151.28
Canada	3.90%	872.82	411.34	-
Cyprus	0.02%	-	1.98	1.98
Czech Republic	0.05%	5.29	5.29	-
Denmark	1.74%	183.95	183.95	-
Finland	0.61%	67.77	67.77	-
France	6.16%	517.48	648.50	131.02
Germany	9.87%	1,036.20	1,036.20	-
Greece	0.13%	13.73	13.73	-
Hungary	0.06%	4.96	6.35	1.39
Iceland	0.04%	3.17	4.24	1.07
Ireland	0.20%	79.57	21.15	-
Italy	3.95%	51.89	416.05	364.16
Japan	13.17%	331.50	1,391.91	1,060.41
Korea, Republic of	0.91%	96.87	96.87	-
Kuwait	0.15%	57.66	15.86	-
Latvia	0.01%	-	0.99	0.99
Luxembourg	0.10%	40.05	10.54	-
Netherlands	2.87%	242.55	303.39	60.84
New Zealand	0.13%	13.73	13.73	-
Norway	1.68%	200.21	177.59	-
Poland	0.03%	2.18	3.16	0.98
Portugal	0.22%	82.69	23.28	-
Russian Federation	0.09%	33.39	9.53	-
Saudi Arabia	0.39%	16.31	41.23	24.92
Singapore	0.14%	-	14.81	14.81
Slovak Republic	0.01%	0.98	1.06	0.08
Slovenia	0.03%	0.57	3.16	2.59
South Africa	0.09%	29.47	9.53	-
Spain	1.99%	210.38	210.38	-
Sweden	2.89%	305.51	305.51	-
Switzerland	2.44%	152.71	258.75	106.04
United Kingdom	13.83%	1,463.17	1,463.17	-
United States	<u>20.30%</u>	334.21	2,191.58	1,857.37
Sub-total	92.14%	6,716.23	9,779.12	3,779.93
Financing gap	<u>7.86%</u>			
TOTAL	100.00%			

a/ Based on IDA15 MDRI cost estimates as of September 30, 2007.

International Development Association
Donor Financing of IDA's Forgone Reflows due to the MDRI:
Total Financing Commitments Received^{a/}
as of June 30, 2009
(USD equivalent millions)

Donors	Shares	A			B	A-B
		Financing Commitments Received			Target Contributions, Based on Updated MDRI Cost Estimates	Surplus/ (Shortfall) vs. Updated Costs
		<u>Unqualified</u>	<u>Qualified</u>	<u>Total Received</u>		
Australia	1.61%	170.21	-	170.21	604.86	(434.65)
Austria	0.78%	82.46	-	82.46	293.03	(210.57)
Belgium	1.55%	12.59	-	12.59	582.29	(569.70)
Canada	3.90%	872.82	594.10	1,466.92	1,466.92	-
Cyprus	0.02%	-	-	-	7.39	(7.39)
Czech Republic	0.05%	5.29	13.49	18.78	18.78	-
Denmark	1.74%	183.95	469.72	653.67	653.67	-
Finland	0.61%	67.77	-	67.77	229.74	(161.97)
France	6.16%	517.48	1,949.86	2,467.34	2,314.22	153.12
Germany	9.87%	1,036.20	2,672.68	3,708.88	3,708.88	-
Greece	0.13%	13.73	35.08	48.81	48.81	-
Hungary	0.06%	4.96	-	4.96	22.61	(17.65)
Iceland	0.04%	3.17	-	3.17	15.11	(11.94)
Ireland	0.20%	79.57	-	79.57	75.19	4.38
Italy	3.95%	51.89	1,531.49	1,583.38	1,485.12	98.26
Japan	13.17%	331.50	4,615.89	4,947.39	4,947.39	-
Korea, Republic of	0.91%	96.87	245.68	342.55	342.55	-
Kuwait	0.15%	57.66	-	57.66	56.37	1.29
Latvia	0.01%	-	-	-	3.74	(3.74)
Luxembourg	0.10%	40.05	-	40.05	37.53	2.52
Netherlands	2.87%	242.55	906.74	1,149.29	1,078.22	71.07
New Zealand	0.13%	13.73	35.08	48.81	48.81	-
Norway	1.68%	200.21	430.92	631.13	631.13	-
Poland	0.03%	2.18	9.05	11.23	11.23	-
Portugal	0.22%	82.69	-	82.69	82.69	-
Russian Federation	0.09%	33.39	-	33.39	33.85	(0.46)
Saudi Arabia	0.39%	16.31	-	16.31	146.52	(130.21)
Singapore	0.14%	-	-	-	52.61	(52.61)
Slovak Republic	0.01%	0.98	-	0.98	3.81	(2.83)
Slovenia	0.03%	0.57	10.66	11.23	11.23	-
South Africa	0.09%	29.47	-	29.47	33.85	(4.38)
Spain	1.99%	210.38	537.22	747.60	747.60	-
Sweden	2.89%	305.51	780.20	1,085.71	1,085.71	-
Switzerland	2.44%	152.71	-	152.71	914.77	(762.06)
United Kingdom	13.83%	1,463.17	3,730.94	5,194.11	5,194.11	-
United States	<u>20.30%</u>	<u>334.21</u>	<u>7,289.15</u>	<u>7,623.36</u>	<u>7,623.36</u>	-
Sub-total	92.14%	6,716.23	25,857.95	32,574.18	34,613.70	(2,039.52)
Financing gap	<u>7.86%</u>				<u>2,954.60</u>	
TOTAL	100.00%				37,568.30	

Note 1: For countries who have provided firm financing and payment for the full 40 years of the MDRI, the IoC shortfall amount is calculated for illustrative purposes and will only become a liability at the end of the MDRI period.

Note 2: Surplus amounts represent IoC received amounts which are higher than donor's target contribution under the current cost structure.

a/ Based on IDA15 MDRI cost estimates as of September 30, 2007.

INTERNATIONAL DEVELOPMENT ASSOCIATION
REPORT OF THE EXECUTIVE DIRECTORS

(DRAFT)

Amendment to Resolution No.211
Additions to Resources: Financing the Multilateral Debt Relief Initiative

1. On April 21, 2006, the Board of Governors of the International Development Association (IDA) adopted Resolution No. 211 entitled "Additions to IDA Resources: Financing the Multilateral Debt Relief Initiative" (MDRI Resolution). The Multilateral Debt Relief Initiative (MDRI) provides 100 percent cancellation of eligible debt owed to IDA by countries reaching the Completion Point for the Heavily Indebted Poor Country (HIPC) Initiative. Starting on July 1, 2006 and over the next four decades of the MDRI implementation, IDA is canceling an estimated nominal amount of SDR 23.8 billion (equivalent to USD 36.2 billion) of credit reflows from eligible HIPC countries.
2. Donors have agreed to provide full and timely compensation on a dollar-for-dollar basis to IDA for forgone credit reflows due to debt cancellation under the MDRI. As of June 30, 2009, IDA has received donor commitments to the MDRI in the amount of USD 32.2 billion at the agreed replenishment foreign exchange rates, representing 85.8 percent of total financing requirements based on updated cost estimates for the MDRI as of September 30, 2007. This includes firm, unqualified commitments covering 17.9 percent of the total financing requirements.
3. Under the MDRI replenishment, IDA needs to receive unqualified (i.e., firm appropriated) donor commitments in order for IDA to extend new credits and grants against the donor financing. While donors can deposit qualified commitments for the MDRI, IDA cannot, under the terms of the MDRI Resolution¹, use qualified commitments as available financing for extending new credits and grants. Further, these commitments need to be provided over a rolling decade given that IDA utilizes an advance commitment scheme which uses IDA's stream of available future credit reflows to back disbursements on approved credits and grants.
4. The Executive Directors have considered what action to take, or to recommend to the Board of Governors, with respect to the MDRI financing shortfall. The Executive Directors considered various options and agreed to follow an approach of counting a portion of the amount of qualified commitments for the MDRI towards IDA's commitment authority. This approach would entail an amendment to the MDRI Resolution. The proposed option will be similar to the approach of the African Development Fund that counts 85 percent of the amount of qualified commitments for the MDRI. Executive Directors noted that this practice would not be used in IDA's regular replenishments.
5. The Executive Directors continue to affirm the need for the provision of firm, unqualified financing commitments over a rolling decade in order to maintain IDA's commitment authority over the disbursement period of each future replenishment. The Executive Directors have also approved the use of internal resources to cover any remaining MDRI financing shortfall in IDA15.
6. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft Resolution attached as Attachment I.

¹ Paragraph 7 of Resolution 211 of IDA's Board of Governors: "Additions to Resources: Financing the Multilateral Debt Relief Initiative" adopted April 21, 2006, the main text of which is attached at Attachment II to this Report for ease of reference.

(Draft Resolution of the
Board of Governors)

INTERNATIONAL DEVELOPMENT ASSOCIATION

BOARD OF GOVERNORS

(Draft)

Resolution No.

**Amendment to Resolution No.211
Additions to Resources: Financing the Multilateral Debt Relief Initiative**

WHEREAS:

(A) Resolution No. 211 of the Board of Governors “Additions to Resources: Financing the Multilateral Debt Relief Initiative” adopted on April 21, 2006 (the “MDRI Resolution”) authorized an increase in the resources of the International Development Association (the “Association”) as part of a commitment to provide full and timely compensation to the Association for debt cancellation under the Multilateral Debt Relief Initiative; and

(B) In their report dated [], the Executive Directors have recommended that the MDRI Resolution be amended so that Qualified Commitments under the terms of the MDRI Resolution can become available for commitment by the Association for financing to eligible recipients.

NOW THEREFORE THE BOARD OF GOVERNORS HEREBY RESOLVE as follows:

The MDRI Resolution is amended in paragraph 7 to read as follows:

“7. Commitment Authority.

Subscriptions and contributions made under Instruments of Commitment will become available for commitment by the Association for financing to eligible members in accordance with the commitment authority framework as approved by the Executive Directors.”

INTERNATIONAL DEVELOPMENT ASSOCIATION

BOARD OF GOVERNORS

Resolution No. 211

Additions to Resources: Financing the Multilateral Debt Relief Initiative

WHEREAS:

(A) The Executive Directors of the International Development Association (the “Association”) have concluded that it is desirable for the Association to participate in the Multilateral Debt Relief Initiative for eligible Heavily Indebted Poor Countries, (the “Multilateral Debt Relief Initiative” or “MDRI”), and to that end, to authorize an increase in the resources of the Association as part of a commitment to provide full and timely compensation to the Association for debt cancellation under the MDRI in the amounts and on the basis set out in the report of the IDA Deputies, “Additions to IDA Resources: Financing the Multilateral Debt Relief Initiative” (the “Report”), approved by the Executive Directors on March 28, 2006, and submitted to the Board of Governors;

(B) The members of the Association consider that an increase in the resources of the Association is required and intend to take all necessary governmental and legislative action to authorize and approve the allocation of additional resources to the Association in the amounts and on the conditions set out in this Resolution;

(C) Members of the Association that contribute resources to the Association in addition to their subscriptions as part of the Multilateral Debt Relief Initiative (“Contributing Members”) are to make available their contributions pursuant to the Articles of Agreement of the Association (the “Articles”) partly in the form of subscriptions carrying voting rights and partly as supplementary resources in the form of contributions not carrying voting rights;

(D) Additional subscriptions are to be authorized for Contributing Members in this Resolution on the basis of their agreement with respect to their preemptive rights under Article III, Section 1(c) of the Articles, and provision is made for the other members of the Association (“Subscribing Members”) intending to exercise their rights pursuant to that provision to do so; and

(E) To enable the Association’s participation in the Multilateral Debt Relief Initiative, the Executive Directors have taken a decision under Article X of the Articles that forgiveness by the Association of repayment of all principal and other charges on financing extended to specific eligible countries would be consistent with Article V, Section 3 of the Articles.

NOW THEREFORE THE BOARD OF GOVERNORS HEREBY ACCEPTS the Report as approved by the Executive Directors, **ADOPTS** its conclusions and recommendations **AND RESOLVES THAT** a general increase in subscriptions of the Association is authorized on the following terms and conditions:

1. **Authorization of Subscriptions and Contributions.**

- (a) The Association is authorized to accept additional resources to provide full and timely compensation for the amount of debt forgiven by the Association under the Multilateral Debt Relief Initiative. The amounts and timing of such compensation are set out in the Compensation Schedule attached to this Resolution at Table 1 (the "Compensation Schedule") as adjusted from time to time pursuant to paragraph 1(f) below.
- (b) The Association is authorized to accept the additional resources described in paragraph (a) above from each Contributing Member in the amounts and as specified for each such member in Table 2b attached to this Resolution, as adjusted from time to time to reflect changes in the Compensation Schedule pursuant to paragraph (a) above. Each such amount will be divided into a subscription carrying voting rights and a contribution not carrying voting rights as specified in Table 3 attached to this Resolution, as adjusted from time to time pursuant to paragraph 1(f) below.
- (c) The Association is authorized to accept the additional subscriptions from each Subscribing Member in the amount specified for each such member in Table 3 attached to this Resolution, as adjusted from time to time pursuant to paragraph 1(f) below.
- (d) The Association is authorized to accept additional resources from any member for which no contribution is specified in Table 2b attached to this Resolution and additional resources from Contributing Members incremental to the amounts specified for each such member in Table 2b attached to this Resolution.
- (e) The rights and obligations of the Association and the Contributing Members in respect of the authorized subscriptions and contributions in paragraphs (b) and (d) above will be the same (except as otherwise provided in this Resolution) as those applicable to the ninety per cent portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles by members listed in Part I of Schedule A of the Articles.
- (f) In order to reflect changes in actual and estimated costs of the Association's MDRI debt forgiveness, the Association will:
 - (i) make adjustments in the Compensation Schedule by July 31 in each year;
 - (ii) make adjustments in Tables 2b and 3 attached to this Resolution by October 31 in at least every third year, commencing in 2007; and
 - (iii) notify each Contributing Member and each Subscribing Member: (A) of such adjustments to the Compensation Schedule, Table 2b and Table 3; and (B) of the corresponding adjustments required in the member's payment schedule attached to its Instrument of Commitment.

2. **Agreement to Pay.**

- (a) When a Contributing Member agrees to pay its subscription and contribution, or a Subscribing Member agrees to pay its subscription, it will deposit with the Association one

or more instruments of commitment, each of which will be substantially in the form set out in Attachment I to this Resolution for Contributing Members or in Attachment II for Subscribing Members (each an “Instrument of Commitment”), whereby a Contributing Member obligates itself to make a subscription and contribution or a Subscribing Member obligates itself to make a subscription, as the case may be, on the terms and conditions set forth in this Resolution.

- (b) When a Contributing Member agrees to pay a part of its subscription and contribution without qualification (an “Unqualified Commitment”) and the remainder is subject to necessary parliamentary or legislative approvals (a “Qualified Commitment”), it will so provide in its Instrument of Commitment and such member:
 - (i) undertakes to exercise its best efforts to obtain such approvals for the full amount of its Qualified Commitment by the payment dates set out in the Payment Schedule attached to its Instrument of Commitment (as defined in paragraph (c) below; and
 - (ii) agrees that, upon obtaining such approvals, it will notify the Association that any installments of its Qualified Commitment, or parts thereof, have become unqualified.
- (c) Each Instrument of Commitment from a Contributing Member will contain a payment schedule specifying the amount of its agreed share of each amount due on each payment date in the Compensation Schedule. Each Contributing Member agrees that, if notified by the Association pursuant to paragraph 1 (f) (iii) (B) of this Resolution that a corresponding adjustment is required in the payment schedule attached to its Instrument of Commitment, the Contributing Member will amend its Instrument of Commitment to reflect such adjustments.
- (d) Each Instrument of Commitment from a Subscribing Member will contain a payment schedule specifying the amount of its agreed subscription. Each Subscribing Member agrees that, if notified by the Association pursuant to paragraph 1 (f) (iii) (B) of this Resolution that a corresponding adjustment is required in the payment schedule attached to its Instrument of Commitment, the Subscribing Member will amend its Instrument of Commitment to reflect such adjustments.

3. **Payment.**

- (a) Each Subscribing Member will pay to the Association the amount of its subscription in three installments as follows: (i) the first installment will be payable 31 days after the Effective Date; (ii) the second installment will be payable by January 15, 2016; and (iii) the third installment will be payable by January 15, 2026.
- (b) Each Contributing Member will pay to the Association the amount of its subscription and contribution in accordance with its payment schedule, as such amounts may be adjusted from time to time in accordance with paragraph 2 (c) of this Resolution; provided that:
 - (i) the first installment under its payment schedule will be payable no later than January 15, 2007;
 - (ii) the second installment under its payment schedule will be payable no later than January 15, 2008;

- (iii) the Association and each Contributing Member may agree to earlier payment of any installment;
 - (iv) if the Multilateral Debt Relief Initiative shall not have become effective by December 15, 2006, payment of the first such installment may be postponed by the member for not more than 31 days after the Effective Date;
 - (v) the Association may agree to the postponement of any installment, or part thereof, if the amount paid, together with any unused balance of previous payments by the Contributing Member concerned, is at least equal to the amount estimated by the Association to be required from that member up to the due date of the next installment for purposes of compensation for debt forgiveness by the Association under the Multilateral Debt Relief Initiative; and
 - (vi) if any Contributing Member deposits an Instrument of Commitment with the Association after the date when the first installment of the subscription and contribution is due, payment of any installment, or part thereof, will be made to the Association within 31 days after the date of such deposit.
- (c) If a Contributing Member has deposited an Instrument of Commitment specifying that part of its commitment is a Qualified Commitment, and, upon obtaining necessary parliamentary or legislative approvals, notifies the Association that any installments, or parts thereof, have become unqualified after the due date, then payment of such installments, or parts thereof, will be made within 31 days after the date of such notification.

4. **Mode of Payment.**

- (a) Payments pursuant to this Resolution will be made, at the option of the member: (i) in cash, on terms agreed between the member and the Association; or (ii) by the deposit of notes or similar obligations issued by the government of the member or the depository designated by such member, which shall be non-negotiable, non-interest bearing and payable at their par value on demand to the account of the Association.
- (b) The Association will encash notes or similar obligations of Contributing Members, on an approximately *pro rata* basis among donors, or as agreed between a Contributing Member and the Association in accordance with the Payment Schedule. With respect to a Contributing Member that is unable to comply with one or more encashment requests, the Association may agree with the member on a revised encashment schedule that yields at least an equivalent value to the Association.
- (c) The provisions of Article IV, Section 1(a) of the Articles will apply to the use of a Subscribing Member's currency paid to the Association pursuant to this Resolution.

5. **Currency of Denomination and Payment.**

- (a) Members will denominate the resources to be made available pursuant to this Resolution in SDRs, the currency of the member, or, with the agreement of the Association, in a freely convertible currency of another member, except that if, on any payment date under the Payment Schedule, a Contributing Member's economy has experienced a rate of inflation above such level and for such period as determined by the Association in connection with

the most recent regular replenishment of the Association's resources, its subscription and contribution will be denominated in SDRs.

- (b) Contributing Members will make payments pursuant to this Resolution in SDRs, a currency used for the valuation of the SDR, or, with the agreement of the Association, in another freely convertible currency, and the Association may freely exchange the amounts received as required for its operations. Subscribing Members will make payments in the currency of the member or in a freely convertible currency with the agreement of the Association.
- (c) Each member will maintain, in respect of its currency paid by it under this Resolution, and the currency of such member derived therefrom as principal, interest or other charges, the same convertibility as existed on the effective date of this Resolution.
- (d) The provisions of Article IV, Section 2 of the Articles with respect to maintenance of value will not be applicable.

6. **Effective Date.**

- (a) The increase in resources authorized under this Resolution will become effective and the resources to be contributed pursuant to this Resolution will become payable to the Association on the date (the "Effective Date") when the Association shall have received Instruments of Commitment from Contributing Members containing, in the aggregate, not less than SDR 10,434 million of Unqualified Commitments and Qualified Commitments, of which not less than SDR 410 million shall be Unqualified Commitments for payments due in 2007 and 2008, provided that the Effective Date shall be not later than May 31, 2006, or such later date as the Executive Directors of the Association may determine.
- (b) If the Association determines that the availability of additional resources pursuant to this Resolution is likely to be unduly delayed, or the Association has not received, by one year after the Effective Date, Instruments of Commitment from Contributing Members containing in the aggregate not less than SDR 14,878 million of Unqualified Commitments and Qualified Commitments, it shall convene promptly a meeting of the Contributing Members to review the situation and to consider the steps to be taken to prevent a suspension of financing to eligible recipients by the Association.

7. **Commitment Authority.**

Subscriptions and contributions made under Instruments of Commitment will become available for commitment by the Association for financing to eligible members in accordance with the commitment authority framework as approved by the Executive Directors, provided that amounts provided as Qualified Commitments will only become available for commitment by the Association for financing when the Association has been notified, pursuant to paragraph 2(b)(ii) of this Resolution, that such amounts have become unqualified.

8. **Allocation of Voting Rights under Multilateral Debt Relief Initiative.**

Voting rights calculated on the basis of the current voting rights system will be allocated to members for subscriptions under the Multilateral Debt Relief Initiative as follows:

- (a) Each Subscribing Member that has deposited with the Association an Instrument of Commitment will be allocated, on the payment dates specified in paragraph 3(a) of this

Resolution, one third of the subscription votes specified for each such member in Table 3. Each Subscribing Member will be allocated the additional membership votes specified in Column c-3 of Table 3 on the date such member is allocated the first installment of its subscription votes.

- (b) Each Contributing Member that has deposited with the Association an Instrument of Commitment will be allocated, on each payment date specified in its payment schedule, a pro rata portion of the subscription votes specified for each such member in Table 3. Each Contributing Member will be allocated the additional membership votes specified in Table 3 for its subscription on the date such member is allocated the first installment of its subscription votes.
- (c) For the purposes of paragraphs (a) and (b) above, the Association will modify Table 3 in accordance with paragraph 1(f) of this Resolution.
- (d) Each Contributing Member that has specified a Qualified Commitment in its Instrument of Commitment will be allocated subscription votes at the time and to the extent of payments made in respect of such portion of its subscription and contribution.
- (e) Any member that deposits its Instrument of Commitment after the first payment date specified in its payment schedule, will be allocated, within 31 days of the date of such deposit, the subscription votes to which such member is entitled at that time on account of such deposit.
- (f) If a member fails to pay any amount of its subscription or subscription and contribution when due, the number of subscription votes allocated from time to time to such member under this Resolution in respect of the Multilateral Debt Relief Initiative will be reduced in proportion to the shortfall in such payments, but any such votes will be reallocated when the shortfall in payments causing such adjustment is subsequently made up.

9. **Implementation of the Multilateral Debt Relief Initiative and Use of Funds.**

- (a) The Board of Governors notes with approval the decision of the Executive Directors under Article X of the Articles referred to in Recital (E) above.
- (b) Pursuant to Article V, Section 2(a)(i) of the Articles, the Association is authorized to use the resources authorized under this Resolution, and funds derived therefrom as principal, interest or other charges, to provide financing in the form of grants and guarantees on the terms and conditions applicable to the most recent regular replenishment of the Association's resources.

(Adopted on April 21, 2006)