

**The G8 Debt Relief Proposal:
Assessment of Costs, Implementation Issues, and
Financing Options**

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September 1, 2005

ABBREVIATIONS AND ACRONYMS

AfDF	African Development Fund
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
DOD	Debt Outstanding and Disbursed
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IoC	Instrument of Commitment
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights

Table of Contents

EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. KEY FEATURES OF THE G8 PROPOSAL.....	2
III. POTENTIAL BENEFITS OF DEBT RELIEF UNDER THE G8 PROPOSAL.....	3
IV. ESTABLISHING THE COST BASE FOR IDA.....	4
A. <i>Cutoff Date, Implementation Date and Credit Coverage</i>	4
B. <i>Combined Costs of the HIPC Initiative and the G8 Proposal</i>	5
C. <i>Balance Sheet Impact for IDA</i>	8
V. IMPACT OF THE G8 PROPOSAL ON IDA’S RESOURCE ALLOCATIONS.....	9
VI. FINANCING OPTIONS FOR DONORS	11
A. <i>Existing Financing Commitments of Donors</i>	11
B. <i>Financing Proposed in the G8 Communiqué</i>	12
C. <i>Alternative Financing Options</i>	12
D. <i>Assessing Additionality</i>	18
VII. LEGAL CONSIDERATIONS.....	19
VIII. ENSURING THE BENEFITS OF DEBT RELIEF.....	23
IX. IMPLICATIONS FOR THE DEBT SUSTAINABILITY FRAMEWORK, POST-DEBT RELIEF BORROWING, AND THE TERMS OF NEW IDA ASSISTANCE.....	25
X. COORDINATION WITH OTHER CREDITORS.....	27
XI. CONCLUSIONS AND NEXT STEPS.....	27

List of Tables

Table 1: Cost Estimates for IDA under Different Cutoffs and Credit Coverage Scenarios	5
Table 2: Cost Estimates for IDA from Debt Relief, G8 Proposal and HIPC Combined	7
Table 3: Estimated Balance Sheet Impact to IDA from Debt Relief, G8 Proposal and HIPC Combined	8
Table 4: Projected New IDA Commitments per Region (SDR billion), FY06-08	11
Table 5: Financing Options for IDA Donors to Provide Full Debt Relief.....	14
Table 6: Donor Financing Requirements for the G8 Proposal.....	17

List of Charts

Chart 1: Impact of G8 Proposal on Debt Ratios in IDA Countries (%)	3
Chart 2: Time Profile of Costs of Debt Relief to IDA, G8 Proposal and HIPC Combined	6

Annexes

Annex 1: G8 Finance Ministers' Final Communiqué, London, 10-11 June 2005	28
Annex 2: Technical Note: G8 Proposal for HIPC Debt Cancellation	32
Annex 3: Tables and Charts.....	36
Annex Table 1: 38 HIPCs and Sunset Clause Countries: Cost of G8 Proposal to IDA	37
Annex Table 2: Advance Commitments of Reflows (FY07-16)	38
Annex Chart 1: Time Profile of IDA Commitments and Disbursements	38
Annex Table 3: Costs to IDA of Debt Relief to Potentially HIPC-Eligible Countries.....	39
Annex Table 4: Illustrative Donor Financing Commitments to IDA over the next Four Decades.....	40
Annex Table 5a: Illustrative Donor Costs for G8 Proposal, Financing Options 1 and 2 No Acceleration of Notes Encashment	41
Annex Table 5b: Illustrative Donor Costs for G8 Proposal, Financing Options 1 and 2 Full Acceleration of Notes Encashment	42
Annex Table 6: Illustrative Donor Costs for G8 Proposal, Financing Option 3.....	43
Annex Table 7a: Illustrative Total Donor Contributions, IDA14-IDA17, Financing Option 2 No Acceleration of Notes Encashment	44
Annex Table 7b: Illustrative Total Donor Contributions, IDA14-IDA17, Financing Option 2 Full Acceleration of Notes Encashment	45

Executive Summary

The G8 countries have proposed to augment debt relief to countries that reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, leading to 100 percent cancellation of debt owed by them to IDA, the African Development Fund (AfDF) and the IMF. The G8 proposal provides a framework that seeks to achieve two objectives: deepening debt relief to HIPCs to help them reach the MDGs, while safeguarding the long-term financial capacity of IDA and the AfDF; and encouraging the best use of additional donor resources for development by allocating them to low-income countries on the basis of policy performance.

In translating the broad objectives of the G8 proposal into an operational framework, a number of key financial and operational issues need to be resolved. These include:

- **Establishing the cost base for IDA.** Estimated costs to IDA of debt relief under the G8 proposal are sensitive to cutoff and implementation dates and the coverage of eligible credits and countries. A consensus appears to be emerging around a cutoff date of December 31, 2004 and a target implementation date of July 1, 2006. If credit coverage includes all debt outstanding and disbursed, total costs for IDA are estimated at \$42.5 billion; costs for fully disbursed credits only would be about \$10 billion lower. The inclusion of potential new HIPC countries under the sunset clause could add up to an additional \$15.2 billion of costs for IDA. Debt relief under the existing HIPC Initiative and the G8 proposal together could reduce IDA's total assets by up to 46 percent. Further guidance is being sought on the desired credit and country coverage under the G8 proposal.
- **Focusing the reallocation of donor replacement resources on the countries with the greatest need for concessional resources.** Replacement of IDA's forgone reflows is critical to ensure financial benefits for countries receiving debt relief. The G8 proposal envisages that replacement resources would be allocated to a larger subset of IDA recipients than that contemplated for debt relief. Reallocating replacement resources to IDA-only countries (excluding "gap" countries) would seem appropriate to the extent that they have very limited access to international financial markets, and thus a greater need for additional concessional resources. This would also dampen the potential decline in new IDA commitments to countries eligible for debt relief resulting from the "netting out" of the forgone reflows.
- **Maintaining an appropriate balance between granting debt relief and providing the required replacement resources, so as to safeguard IDA's financial capacity and ensure actual additionality.** Executive Directors stressed the importance of appropriate financing arrangements for donors' replacement funds in their discussion on August 4, 2005. In their Communiqué, the G8 countries have proposed 100 percent debt stock cancellation while "donors would provide additional contributions to IDA to offset dollar for dollar the forgone principal and interest repayments of the debt cancelled." Donors would provide immediate replacement funds over the IDA14 period. "For the period after this, donors will commit to cover the full costs for the duration of the cancelled loans, by making contributions additional to regular replenishments of IDA." This financing proposal could reduce IDA's financial capacity significantly and may fail to deliver additional resources to poor countries. The necessary financial balance between debt relief and donor financing could, however, be maintained by linking the scope and timing of irrevocable debt relief to the volume and sequencing of firm donor resources made available to IDA. Three financing options would

safeguard IDA's financial capacity while providing full debt cancellation: (i) upfront financing and debt relief (Option 1); (ii) financing and debt cancellation over four IDA replenishments (Option 2); and (iii) financing and debt reduction over 40 years (Option 3). Under Options 2 and 3, donors would need to agree on a benchmark to assess the additionality of future donor financing over and above regular contributions to IDA. An agreed benchmark would provide a clear basis for mutual accountability among donors, and an important public signal of the commitment of donors to increase resources for poor countries, while maintaining IDA's capacity to play a leading role in the aid architecture.

- **Determining the available legal avenues for IDA to adopt the G8 proposal, depending on the financial impact on IDA.** If IDA holds legally binding commitments for full financial compensation to IDA and debt is cancelled in parallel with receipt of payments of financial compensation by IDA, the Executive Directors could decide to interpret the Articles of Agreement of IDA to authorize total debt forgiveness. Without such legally binding commitments and financing arrangements, the potential material adverse impact on IDA's financial structure could lead to fundamental changes in IDA. These changes would call for an amendment to the Articles, requiring action by the Board of Governors and IDA's members.
- **Ensuring adequate performance and governance standards to maximize the benefits of debt relief.** Appropriate performance and governance standards are essential to ensure maximum benefit from debt relief. In their August 4, 2005 discussions, Executive Directors expressed the view that reaching HIPC completion point involved sufficient conditionality. For post-completion point HIPCs, however, they suggested establishing criteria to ensure continued adherence to adequate standards of governance and public expenditure management, before debt relief was committed. Further guidance is sought on these criteria, and on whether ongoing conditionality is warranted, in particular when coupled with a financing arrangement involving debt cancellation over an extended period of time.
- **Working out the implications of the G8 proposal for the debt sustainability framework (DSF) and the IDA14 grant allocation framework.** Executive Directors expressed the view that it would be premature to consider any modifications of the DSF before the implementation of the framework has seriously begun. At the same time, they expressed concern that countries would re-accumulate unsustainable debt levels. The current IDA14 framework could help prevent this, and incidences of "free riding" could be dealt with through policies designed to limit non-concessional borrowing by IDA grant recipients. There may also be implications for the grant allocation framework under IDA14. Any significant deviation from the IDA14 Resolution, including additional voting rights, would require action by the Board of Governors.

The G8 Debt Relief Proposal: Assessment of Costs, Implementation Issues, and Financing Options

I. INTRODUCTION

- 1. The G8 has proposed to augment debt relief to completion point HIPCs, leading to 100 percent cancellation of debt owed by them to IDA, the IMF, and the African Development Fund (AfDF).** This proposal was initially agreed upon by the G8 Finance Ministers at their meeting in London on June 10-11, 2005, and reaffirmed by G8 Heads of State at the Gleneagles Summit on July 8, 2005.¹ The objective of the proposal is to provide additional support to HIPCs to reach the MDGs while ensuring that the financing capacity of the IFIs is preserved. The G8 proposal provides a framework that commits to achieve two objectives: deepening debt relief to HIPCs while safeguarding the long-term financial capacity of IDA and the AfDF; and encouraging the best use of additional donor resources for development by allocating them to low income countries on the basis of policy performance. A number of issues need to be addressed in order to implement the G8 debt reduction proposal.
- 2. This paper provides an assessment of the implications of the G8 proposal, in terms of the costs to IDA and the key operational, financial and legal issues that need resolution before the proposal is implemented.** Informal IDA Board meetings on the proposal were held on July 5, 2005 and on August 4, 2005, in which a staff paper containing a preliminary analysis of implications of the proposal to IDA was discussed.² Executive Directors discussed the objectives of the proposal and options for implementation, but stressed the importance of maintaining IDA's financial capacity. They also provided guidance on the key operational and financial issues related to the proposal, and requested staff to present options for resolving these issues. This paper builds on the preceding Board discussions and incorporates guidance from the Executive Directors. The paper also benefits from a technical note prepared by G8 debt experts and consultations with the AfDF and the IMF.³ Based in part on these interactions, this paper presents options for resolving key financial and operational issues involved in the implementation of the G8 proposal.
- 3. This paper is structured as follows.** Section II summarizes the key features of the G8 proposal. Section III discusses the potential benefits of debt relief under the G8 proposal. Section IV establishes IDA's estimated cost of implementing the G8 proposal in terms of forgone credit reflows, taking into account feedback on various implementation issues from the Board meeting of August 4, 2005. Section V elaborates on the need for additionality and on the mechanism for reallocating the replacement resources for lost credit reflows to the IDA countries. Section VI addresses the key issue of donor financing to ensure additionality; it presents several options that would help safeguard IDA's financial capacity by balancing the provision of debt relief with the receipt of the required replacement resources from donors. Section VII deals with the legal issues arising from the G8 proposal. Section VIII discusses ways in which adequate performance and governance standards should be established for eligible

¹ The proposal is set out in the G8 Finance Ministers' Communiqué entitled "Conclusions on Development", issued on June 11, 2005.

² Refer to IDA(2005). *The G8 Debt Relief Proposal: Preliminary Costs and Issues*, IDA/SecM2005-0414, July 28, 2005.

³ "Technical Note: G8 Proposal for HIPC Debt Cancellation", Washington DC, July 14, 2005 (see Annex 2).

countries to ensure that they benefit to the maximum extent from debt relief. Section IX examines potential implications of the G8 proposal for the joint Bank-Fund low-income country debt sustainability framework (DSF). Section X deals with coordination issues with respect to other creditors. Section XI presents concluding remarks and outlines the proposed next steps.

II. KEY FEATURES OF THE G8 PROPOSAL

4. **The G8 proposal calls for 100 percent cancellation of IDA, AfDF and the IMF debt stocks for HIPCs that have reached, or will reach, completion point.**⁴ It also commits to providing additional resources, to ensure that the financing capacity of the IFIs is preserved, and that additional resources would be allocated across all low-income countries. Eighteen completion point HIPCs would be immediately eligible to receive 100 percent debt stock reduction; the remaining 10 interim and 10 pre-decision point HIPCs would be eligible once they reach completion point. A few additional countries may qualify for the HIPC Initiative under the sunset clause extension, and could eventually become eligible for debt cancellation under the G8 proposal once they reach their completion points.

5. **The proposal covers debts owed by HIPCs to IDA, AfDF, and the IMF.** It does not cover debts owed to the IBRD,⁵ the African Development Bank, or other MDBs such as the Inter-American Development Bank.⁶ The proposal also does not include debt relief by any bilateral and commercial creditors (contrary to the HIPC Initiative).

6. **The proposal would affect IDA and AfDF “gross assistance flows” through a two-step process.**⁷ First, annual IDA and AfDF allocations to countries receiving debt relief would be reduced by the amount of relief to be provided that year. Second, additional resources provided to IDA and AfDF by the donors (to compensate for the forgone debt service from the country) would be re-allocated to a larger subset of IDA and AfDF recipients than that contemplated for debt relief, based on each institution’s existing performance-based allocation mechanism.

7. **The G8 Finance Ministers’ Communiqué states that “donors would provide additional contributions to IDA and AfDF, based on agreed burden shares, to offset dollar for dollar the forgone principal and interest repayments of the debt cancelled”.** Donors will commit to make additional funds available immediately to cover the full costs for the next three years, namely the IDA14 and AfDF10 periods.⁸ For the period after this, donors would commit to cover the full costs for the duration of the cancelled loans, by making contributions additional

⁴ The G8 proposal is set out in full at Annex 1.

⁵ All outstanding IBRD debts of HIPCs are cancelled at completion point. Any new IBRD debt contracted post-completion point is also excluded.

⁶ Latin American completion point HIPCs owed \$4.5 billion in debt and service charges outstanding at end-March 2005 to the concessional window of the Inter-American Development Bank.

⁷ Strictly speaking, new disbursements would be adjusted by the amount of relief to keep net transfers constant at the end of the first step. But this would result in disruption of ongoing projects; hence the proposal recommends adjusting new commitments.

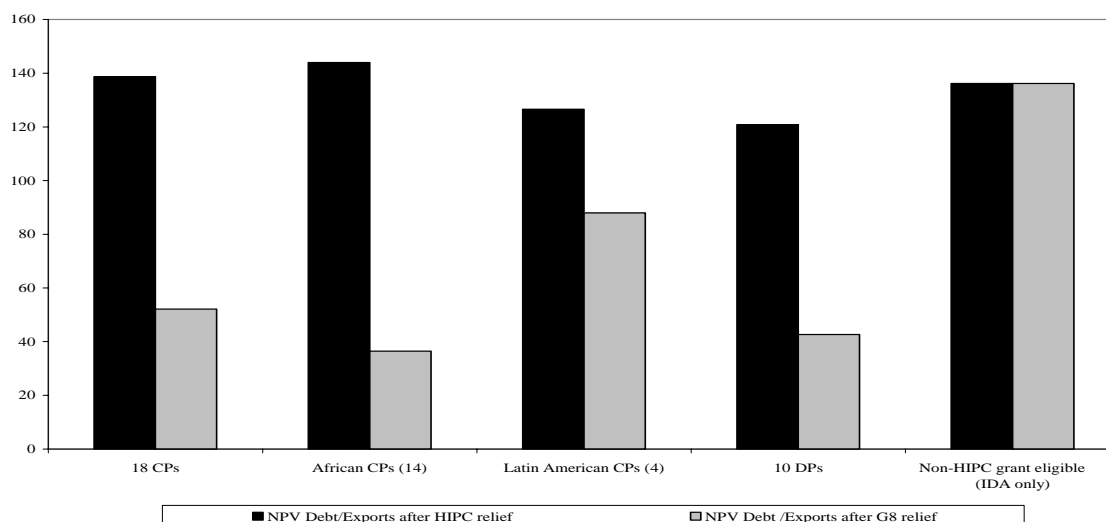
⁸ The IMF is treated differently. The proposal recommends a combination of internal IMF resources to fund debt relief to 35 HIPCs, excluding countries with protracted arrears and countries that may become eligible for HIPC assistance under the extended sunset clause (through December 31, 2006).

to regular replenishments of IDA and AfDF. The proposal seeks equivalent contributions from other donors, based on agreed burden shares.⁹

III. POTENTIAL BENEFITS OF DEBT RELIEF UNDER THE G8 PROPOSAL

8. **Debt cancellation, once implemented, would facilitate long-term debt sustainability in HIPCs.** For the 18 post-completion point HIPC countries, the average NPV debt/exports ratio would fall from 140 percent after current HIPC relief to a projected 52 percent after implementation of the G8 proposal (Chart 1).¹⁰ Similar reductions would result for decision point HIPCs once they reach completion point.¹¹

Chart 1: Impact of G8 Proposal on Debt Ratios in IDA countries (%)



Source: IDA staff estimates.

9. **Resource transfers in the form of additional debt relief may bring timely benefits to eligible countries, helping them achieve their Millennium Development Goals (MDGs).** Debt relief generally has lower transaction costs than other forms of aid and provides countries resources that can be used for meeting development needs, if used efficiently. Countries benefiting from debt relief could also set aside a portion of the annual forgone debt service as a buffer for expenditure needs created by future exogenous shocks. If debt relief is committed over a multi-year period, recipients are assured of these flows well into the future and can factor them into their medium-term development agenda.

10. **In addition, built-in features of the G8 proposal would help allay moral hazard and equity concerns associated with debt relief.** Differently from debt relief under the HIPC

⁹ The G8 Finance Ministers' Communiqué states in footnote 2 that "additional donor contributions would be provided on the basis of IDA13 and AfDF10 burden shares."

¹⁰ If the post-completion point LAC countries were provided 100 percent debt relief from the Inter-American Development Bank's concessional window, their average NPV of debt-to-exports ratio would fall from about 87.9 percent to 45.9 percent.

¹¹ This would put average debt ratios in these countries at less than half that of non-HIPCs whose debt ratios are sufficiently elevated to qualify for grant assistance under the IDA14 implementation of the Bank-Fund debt sustainability framework.

Initiative, and as noted in Section III, under the debt relief mechanism envisaged by the G8, “gross assistance flows” from IDA to eligible countries are reduced by the amount of debt service forgiven. Such “netting out” would help reduce moral hazard and equity concerns associated with debt relief by preventing eligible countries from receiving a more favorable treatment than those which are ineligible. Re-allocating “replacement” donor contributions using the PBA would help strengthen the link between resource transfers and country performance levels.

11. Realizing the potential benefits of debt relief requires additionality of donor financing and adequate performance standards in countries receiving debt relief. To maximize the potential benefits of debt relief it is imperative that donor resources to finance debt relief are additional to regular aid contributions, and provided in a timely manner. Without additionality, debt relief would be tantamount to changing the composition of external assistance, leaving overall assistance volumes unchanged.¹² The G8 Communiqué acknowledges the crucial importance of additionality and, as noted in Section II proposes that replacement donor contributions be made to IDA to offset “dollar for dollar” the forgone principal and interest reflows. In addition, recipients of debt relief should maintain adequate performance standards, including in the areas of governance, accountability and transparency, to ensure that savings from debt relief are used for economic development. These issues are elaborated in Sections V and VIII respectively.

IV. ESTABLISHING THE COST BASE FOR IDA

12. Current estimates indicate that IDA would carry about three quarters of the costs of debt relief under the G8 proposal.¹³ For IDA, depending upon the cutoff date, implementation date, and eligible credit coverage, the cost of providing 100 percent debt relief to 38 HIPC (beyond HIPC relief already committed) is presently estimated at some \$42.5 billion in forgone principal and service payments.¹⁴ This compares with preliminary cost estimates for the AfDF of about \$10 billion and for the IMF in the order of \$5 billion.¹⁵ The bulk of IDA’s debt relief (\$30.3 billion) would be provided to the current post-completion point HIPC, most of which are located in Africa (see Annex Table 1).

A. Cutoff Date, Implementation Date and Credit Coverage

13. The costs of debt relief under the G8 proposal will depend on the choice of cutoff and implementation dates. The cost estimates in this paper are based on debt stocks as of December 31, 2004 (the cutoff date), with an implementation date of July 1, 2006 (i.e., at the

¹² Some substitution between sources of development finance – aid and debt relief – could therefore take place as a result of the G8 proposal. The ultimate benefit of such substitution for eligible countries would depend on whether one dollar of debt relief generates a greater development impact than one dollar of IDA-financed projects and programs.

¹³ For the IDA and AfDF, “costs” refer to cumulative debt servicing obligations of HIPC after incorporating HIPC debt relief, using a cutoff date of December 31, 2004 and an implementation date of July 1, 2006. IMF cost estimates are based on stocks of credit.

¹⁴ All estimates assume the following timing of HIPC countries reaching their completion point: completion point for Chad and Malawi in FY2006 and for the other interim HIPC in FY2007; for the pre-decision point countries, completion point for Republic of Congo in FY2008, and for the other pre-decision point HIPC in FY2010.

¹⁵ Cost estimates for the AfDF and IMF are preliminary and are subject to further review by these institutions.

beginning of FY07). This approach implies a total cost of \$42.5 billion, valuing IDA's forgone SDR-denominated reflows at the USD/SDR foreign exchange rate¹⁶ as of the cutoff date of end-December 2004. A cutoff date of end-December 2003 – one year earlier – would lower IDA's costs by an estimated \$5.3 billion to \$37.2 billion (see Table 1), resulting from both a lower balance of disbursed and outstanding credits and a different prevailing foreign exchange rate.¹⁷

14. **Discussions to date suggest that a consensus may emerge around a cutoff date of December 31, 2004, and an implementation date of July 1, 2006.** Implementation of the G8 proposal would be less disruptive to ongoing country operations in FY06 if it starts at the beginning of FY07.¹⁸

Table 1: Cost Estimates for IDA under Different Cutoffs and Credit Coverage Scenarios
(Implementation date of July 1, 2006; USD billion)

Credit Coverage	Cutoff Date: Dec. 31, 2003	Cutoff Date: Dec. 31, 2004
Disbursed and Outstanding Debt	37.2	42.5
Fully Disbursed Credits	27.1	32.3

Source: IDA staff estimates.

15. **Costs to IDA would drop if credit coverage were limited to fully disbursed credits only.** Estimated costs of \$42.5 billion are based on debt outstanding and disbursed (DOD) as of December 31, 2004.¹⁹ If, however, the stock of debt were determined on the basis of fully disbursed credits only, as of December 31, 2004, estimated costs to IDA would be about \$32.3 billion, some \$10 billion lower than for DOD (see Table 1).²⁰ Further guidance is being sought on the desired credit coverage under the G8 proposal.

B. Combined Costs of the HIPC Initiative and the G8 Proposal

16. **IDA's cost from the G8 proposal would extend over 40 years, twice as far as under the HIPC Initiative.** Forgone credit reflows due to the G8 proposal would start at \$1.0 billion in the IDA14 period (costs during FY07 and 08, based on an implementation date of July 1, 2006) and would increase steadily over time, peaking at \$6.1 billion by IDA20 (FY24-26) (see Chart 2). Over the first decade (FY07-16), total costs to IDA would be about \$8.9 billion, followed by \$17.6 billion during the second decade (FY17-26), \$14.1 billion during the third decade (FY27-36), and \$1.8 billion in the last decade (FY37-44), respectively (see Table 2).

¹⁶ The applicable foreign exchange rate is USD/SDR 1.54899.

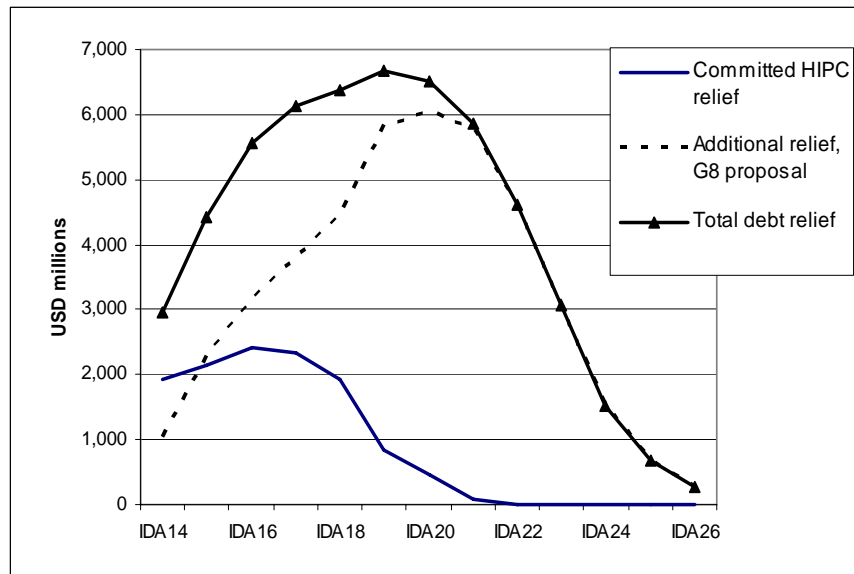
¹⁷ Advancing the implementation date by one year, to July 1, 2005, would change the cost base only marginally, increasing costs by some \$0.3 billion to \$42.8 billion, as one additional year of debt service (FY06) would be added to the overall costs.

¹⁸ In any event, the Country Assistance Strategies of all recipient countries would need to be reassessed in light of the reduction in IDA's new commitments – and thus in the level of new IDA operations – for countries benefiting from debt relief.

¹⁹ This is the approach adopted for the HIPC Initiative, where debt relief is calculated using disbursed and outstanding balances as of a specific cutoff date.

²⁰ Cost estimates for fully disbursed credits would rise by about \$1 billion if credits with an undisbursed balance of less than 1 percent of total principal were also considered eligible for debt relief.

**Chart 2: Time Profile of Costs of Debt Relief to IDA,
G8 Proposal and HIPC Combined**
(USD million)



Source: IDA staff estimates.

17. **Over the first decade, debt relief under the G8 proposal would deprive IDA of credit reflows that have already been committed in advance for disbursements under previous IDA replenishments.** The cost estimate for the first decade of \$8.9 billion includes an estimated \$4.7 billion of principal reflows that have been, or will be, committed as part of the financing arrangements for IDA11 through IDA14, under the IDA advance commitment framework which has been in place since FY89. Including forgone charges of \$1.2 billion which are applied to cover IDA's costs of operations, total committed reflows forgone amount to \$5.9 billion (Table 2). These reflows are required to enable IDA to disburse its credit commitments under previous replenishments and under IDA14, while maintaining IDA's future financial capacity (see Annex Table 2 and Annex Chart 1 for further details). The balance of forgone reflows over the first decade (\$3.0 billion) is scheduled for commitment under IDA15 and IDA16.

**Table 2: Cost Estimates for IDA from Debt Relief,
G8 Proposal and HIPC Combined**
(USD billion)

Source of Forgone Credit Reflows (principal and charges)	Principal	Total	in percent of total pre-relief debt service to IDA
Reflows committed for IDA11-IDA13 disbursements	2.3	3.0	2.2%
+ Reflows committed for IDA14 disbursements	2.4	2.9	2.1%
Costs on committed reflows, FY07-16	4.7	5.9	4.2%
+ Costs on reflows to be committed during FY07-16 (under IDA15 & IDA16)		3.0	2.2%
Total costs, first decade (FY07-16)		8.9	6.4%
+ Costs over second decade (FY17-26)		17.6	12.7%
+ Costs over third decade (FY27-36)		14.1	10.1%
+ Costs over fourth decade (FY37-44)		1.8	1.3%
Total costs for 38 HIPCs		42.5	30.6%
+ Additional costs for likely ('ring-fenced') HIPC-eligible countries 1/		3.2	2.3%
+ Additional costs for potentially HIPC-eligible countries with incomplete data 2/		12.0	8.7%
Possible total G8 costs (38 HIPC plus all sunset clause countries)		57.7	41.5%
+ Costs under existing HIPC Initiative		15.4	11.1%
Maximum cost to IDA from G8 proposal and HIPC Initiative		73.1	52.6%

1/ Eritrea, Haiti, Kyrgyz Republic, Nepal
2/ Bangladesh, Bhutan, Sri Lanka, Tonga

Source: IDA staff estimates.

18. Existing HIPC costs and the addition of new HIPC-eligible countries would increase IDA's total costs of debt relief substantially. The estimated cost of the G8 proposal alone is \$42.5 billion for the 38 HIPCs. Furthermore, under the existing HIPC Initiative, a total of \$15.4 billion of debt relief is expected to be provided, of which \$12.0 billion remains to be financed. However, the total costs of debt relief could rise by up to an additional \$15.2 billion if all of the potentially eligible IDA countries would qualify as HIPCs by end-2006, under the HIPC 'sunset clause' (Annex Table 3).²¹ In total, debt relief, including under the G8 proposal, could cost IDA an amount of up to \$73.1 billion in forgone credit reflows (Table 2), of which \$66.7 billion represents principal. The maximum cost of \$73.1 billion would be equivalent to nearly 53 percent of IDA's cumulative credit reflows over 40 years prior to any debt relief (\$139 billion), based on outstanding credits as of end-December, 2004. Further guidance would be required on whether debt relief should indeed be provided to those countries that are not classified as HIPCs today but could become HIPC-eligible in the future. All cost estimates of the G8 proposal in this

²¹ The IMF and IDA Boards extended in September 2004 the sunset clause of the HIPC Initiative to end-2006. Staffs of the Fund and the Bank have started assessing information on countries that may become potentially eligible for assistance under the HIPC Initiative based on their estimated end-December 2004 debt burden indicators. New potentially-eligible countries could include Eritrea, Haiti, the Kyrgyz Republic and Nepal. For other countries, limited data availability introduces further uncertainty as to whether they would fulfill the HIPC Initiative's indebtedness criteria, as their debt ratios fall within a "gray zone" measured by a margin of 10 percent around the applicable HIPC thresholds. The countries that were not previously listed among pre-decision point HIPCs are Bangladesh, Bhutan, Sri Lanka and Tonga.

paper are based on expected costs of \$42.5 billion relating to debt owed by the current 38 HIPC countries only.²²

C. Balance Sheet Impact for IDA

19. **The G8 proposal has the potential to change IDA's balance sheet significantly, lowering total assets and affecting member subscriptions in IDA.** Of IDA's principal credit balance outstanding, the G8 proposal would entail cancellation of about \$38.8 billion of principal. Combined, debt relief under the G8 proposal (\$38.8 billion of principal) and the HIPC Initiative (\$14.2 billion of principal) could result in the cancellation of about \$53.0 billion in IDA credits outstanding – about 37 percent of IDA's assets at end-June 2005 (Table 3).²³

20. **Adding the potential cost of additional HIPC-eligible countries (\$13.7 billion of principal) could increase the volume of credit principal to be cancelled to about \$66.7 billion, representing about 46 percent of IDA's assets.**²⁴ This amount of cancelled principal would lower IDA's total assets from nearly \$145 billion before HIPC and G8 debt relief to about \$78 billion after such debt relief. The amount of assets available to IDA to satisfy its obligations to members upon a withdrawal from membership or suspension of operations would be reduced by an equivalent amount.

Table 3: Estimated Balance Sheet Impact to IDA from Debt Relief, G8 Proposal and HIPC Combined (USD billion)

	<u>Debt Service Obligations</u>			<u>Principal as % of Total IDA Assets (6/30/2005)</u>
	<u>Total</u>	<u>Principal</u>	<u>Charges</u>	
Costs for 38 HIPCs from G8 proposal	42.5	38.8	3.7	26.9%
+ <u>Cost of HIPC Initiative</u>	<u>15.4</u>	<u>14.2</u>	<u>1.2</u>	<u>9.8%</u>
Combined costs for 38 HIPCs (HIPC and G8 relief)	57.9	53.0	4.9	36.7%
+ Additional costs, likely HIPC eligible countries	3.2	2.9	0.3	2.0%
+ <u>Additional costs, potential HIPC eligible countries 1/</u>	<u>12.0</u>	<u>10.8</u>	<u>1.2</u>	<u>7.5%</u>
Maximum costs (HIPC and G8 relief)	73.1	66.7	6.4	46.2%

1/ Countries for which data is currently incomplete and cost estimates are substantially uncertain

Note: Total IDA assets represent total published (net) assets plus allowance for HIPC debt relief (\$11.7 billion), as of June 30, 2005, plus the principal portion of HIPC relief already provided (\$2.4 billion).

Source: IDA staff estimates.

²² The cost estimate of the G8 proposal could be affected by arrears clearance for those HIPCs that are in arrears with IDA. Current HIPC cost estimates include the clearance of about \$870 million of overdue amounts from pre-decision point HIPCs and \$52 million of overdue amounts for 8 potentially new HIPC countries. HIPC cost estimates assume that these arrears will be cleared through new credits ("bridge loans"), adding to the debt service owed by these countries after HIPC relief, to be subsequently forgiven under the G8 proposal. However, if arrears are cleared through the provision of grants, debt service owed after HIPC relief, and hence the estimated cost of the G8 proposal, could change with respect to the amount of grants provided.

²³ IDA's assets in its financial statements as of June 30, 2005 are \$130.4 billion. This amount is net of the current HIPC allowance of \$11.7 billion, reflecting debt relief yet to be provided. It also excludes \$2.4 billion of principal relief already provided by IDA. Adding these two allowances result in total assets, before HIPC relief, of \$144.5 billion. This is the amount of total IDA assets against which the combined impact of the G8 proposal and the HIPC Initiative is being assessed.

²⁴ Total pre-relief assets of \$144.5 billion include liquid assets (\$15.1 billion) and receivables (\$6.1 billion) from donors. IDA's outstanding credits alone, before debt relief, would be \$123.4 billion. Forgone principal of \$66.7 billion would represent about 54% of these outstanding credits on IDA's books.

21. **The following key issues emerge from this Section:**

- Should a cutoff date for eligible debt of December 31, 2004 and an implementation start date of July 1, 2006 be set?
- Should debt relief be provided on fully disbursed credits or on debt outstanding and disbursed?
- Should countries that could potentially become eligible for the HIPC Initiative as a result of extending the HIPC sunset clause also be eligible for additional debt relief under the G8 proposal? Or should these countries be excluded from the G8 proposal?

V. IMPACT OF THE G8 PROPOSAL ON IDA'S RESOURCE ALLOCATIONS

22. **This Section examines two additional effects of debt relief: (i) on the total IDA assistance flows to eligible countries; and (ii) on the degree of direct operational and financial presence by IDA in the same countries in the form of new commitments.** Both effects result from the two-step mechanism outlined in Section II, whereby debt service forgiven would be netted out from "gross assistance flows" to eligible countries, followed by a reallocation of the replacement donor resources to a larger subset of IDA countries.

23. **A first task is to determine which specific set of countries should benefit from the reallocation of donor replacement resources.** Reallocating replacement resources to IDA-only countries (excluding "gap" countries) would seem appropriate to the extent that they have very limited access to international financial markets, and thus a greater need for additional concessional resources. This suggests a reallocation to IDA-only countries with per capita income below the operational cutoff. More broadly, however, three alternative country coverage scenarios were examined²⁵: (A) all IDA recipients;²⁶ (B) IDA-only countries, but excluding "gap" countries;²⁷ or (C) IDA-only countries, but excluding post-conflict countries and "gap" countries.²⁸

24. **For the purposes of the scenarios discussed in this Section, total IDA assistance flows to eligible countries are defined as new IDA commitments plus forgone reflows.** To complete the assumptions needed to run these scenarios, two variants are considered with respect to additional donor financing: full or no donor compensation for forgone reflows over FY07-08. The projected pre-relief allocations for FY07-08 are taken as baseline.²⁹

²⁵ It should be noted that the joint statement issued by the G8 countries for the August 4, 2005 Board session on additional debt relief points out that the envisaged country coverage includes all IDA-only countries. This broadly corresponds to scenario B above, with the difference that the latter excludes IDA-only "gap" countries, which currently are Albania and Honduras.

²⁶ Excluding non-accrual countries: Central African Republic, Myanmar, Somalia and Togo.

²⁷ Gap or hardened-term countries are IDA-eligible countries whose per capita incomes are above IDA's operational cutoff for more than two consecutive years.

²⁸ This is the country coverage used for the reallocation of resources from the volume discount on grants under IDA14.

²⁹ Three additional assumptions are used in all scenarios: (i) the implementation date is assumed to be July 1, 2006, so that only FY07-08 debt service payments and new IDA commitments are affected during the IDA14 period; (ii) only the current 18 post-completion point HIPCs are eligible for relief during IDA14, bringing the total cost to \$815 million (or SDR 557 million) for the FY07-08 period; and (iii) "traffic lights" for the 18 post-

25. **Over the IDA14 period, total IDA assistance flows – including new IDA commitments and forgone reflows – to most of the 18 post-completion point HIPCs would be expected to increase, provided that there is additionality.** However, among the 18 post-completion point HIPCs, Bolivia, as an IBRD/IDA blend country, and Honduras, as a “gap” country, would not benefit from the reallocation of the replacement donor resources under scenarios B and C. IDA assistance flows to Africa would increase in all scenarios with additionality, particularly under scenario B. Without additionality, such increase would only be due to the assumed “traffic light” changes for Benin, Ethiopia, Rwanda, and Uganda, which would not be subject to an upfront volume discount on grants if they become “green light” as a result of debt relief. Under scenario A, in which both India and Pakistan would be among the countries with access to the reallocation envelope, IDA assistance flows to South Asia would also increase considerably.

26. **While total IDA assistance flows as defined above would be expected to increase, IDA’s direct operational and financial presence in eligible countries – as measured by new IDA commitments – could decline over time.** The scenarios show that, even with additionality, new IDA commitments to most eligible countries would decrease to some extent over the IDA14 period, as a result of the “netting out” mechanism.³⁰ New IDA commitments to Africa and Latin America would be lowered relative to their currently projected IDA14 levels (Table 4).³¹ The sharpest decline in new IDA commitments for Africa and Latin America would obviously occur in the scenario without additionality, and with current “traffic light” assignments.³² The least such reductions for Africa and Latin America would occur under scenario B. Beyond the IDA14 period, the risk that new IDA commitments would decline over time would be magnified by rising forgone reflows, possibly leading to a progressive operational disengagement by IDA from the countries benefiting from debt relief, especially in the Africa and Latin America regions.

completion point HIPCs for FY07 and FY08, based on the IDA14 grant allocation system, reflect the effect of debt relief under the G8 proposal.

³⁰ Ethiopia and Rwanda would be exceptions, due to: (i) their relatively small debt-service-to-new-commitments ratios over the period considered; and (ii) their post-relief debt-distress risk classification under the assumptions used for the scenarios discussed here, which would yield them both a “green light” and thus no volume discount on grants – which otherwise they would be subject to.

³¹ Although Table 4 shows the overall figures for the entire FY06-08 period, the simulations carried out for this section assume an implementation date of July 1, 2006, so that debt relief would only affect allocations during FY07-08.

³² Changes in “traffic lights” for eligible countries in the wake of debt relief would dampen the reduction in new commitments to Africa. The main reason is that countries that become “green light” as a result of debt relief would no longer be subject to a volume discount on their allocations.

Table 4: Projected New IDA Commitments per Region (SDR billion), FY06-08^{1/}

	Baseline	Without additionality		With additionality		
		With current traffic lights	With new traffic lights	Scenario A	Scenario B	Scenario C
Africa	8.97	8.48	8.59	8.71	8.93	8.92
East Asia	2.24	2.24	2.23	2.29	2.30	2.31
Europe and Central Asia	0.94	0.94	0.94	0.96	0.96	0.96
Latin America & Caribbean	0.51	0.44	0.44	0.44	0.44	0.44
Middle East and North Africa	0.20	0.20	0.20	0.20	0.21	0.21
South Asia	6.81	6.81	6.80	7.15	6.90	6.91
(a) Subtotal	19.68	19.12	19.19	19.75	19.75	19.75
(b) "Hard-term" window	0.47	0.47	0.40	0.40	0.40	0.40
Total (a+b)	20.14	19.59	19.59	20.14	20.14	20.14

Source: IDA staff estimates.

1/ Totals exclude all set-aside provisions, namely, exceptional allocations for countries re-engaging with IDA (SDR 0.86 billion), regional projects (SDR 0.6 billion), and the special provision for Iraq (SDR 0.34 billion). Resources from the "hard-term" window are presented separately from the Regions' allocations.

27. The following key issue emerges from this Section:

- What would be the appropriate subset of IDA countries to benefit from the reallocation of replacement donor resources?

VI. FINANCING OPTIONS FOR DONORS

A. Existing Financing Commitments of Donors

28. The G8 proposal indicates a clear commitment to make additional donor resources available in order to fully compensate IDA for lost reflows as a result of additional debt relief. Executive Directors expressed the view that this commitment adds to existing donor commitments to cover costs under the HIPC Initiative and to finance lost credit reflows due to IDA grants. The combination of donors' pay-as-you-go obligations resulting from: (i) the HIPC Initiative; (ii) upcoming financing commitments under the G8 proposal; and (iii) replacement by the donors of forgone principal reflows due to IDA grants would lead to rising, incremental donor commitments over time, reaching \$12 billion by the IDA26 period (Annex Table 4). Such commitments would be in addition to donors' regular contributions to IDA.

29. Additional financing requirements resulting from the G8 proposal would increase IDA's reliance on donor funds in future replenishments. Without debt relief to be provided under the G8 proposal, available credit reflows would finance an increasing share of IDA's future financing commitments, based on the core assumptions for IDA's financial planning.³³ Donor contributions would be projected to decline from about 55 percent of total resources today to about 45 percent over 20 years. By contrast, taking into account that donors would be

³³ Core assumptions include the following: (i) regular donor contributions in the future would remain stable at their IDA14 level in nominal SDR terms; (ii) donors would fully cover IDA's cost under the existing HIPC Initiative through contributions in addition to their regular IDA contributions; and (iii) IDA's forgone principal reflows due to IDA grants would also be covered through additional donor contributions. Under these assumptions, rising credit reflows would support a modest increase of IDA's financing commitments by 2 percent per annum in SDR terms from the IDA14 level.

covering the cost of the G8 proposal on a dollar-for-dollar basis, donors' financing share would rise to about 58 percent in 20 years.

B. Financing Proposed in the G8 Communiqué

30. **In their Communiqué, the G8 propose to grant full debt stock relief upfront, while providing immediate replacement resources over the IDA14 period and further financing during future replenishments.** Donors would make available funding upfront for the IDA14 period (FY06-08). With implementation expected to start in FY07, this would result in firm financing commitments for FY07 and FY08, amounting to about \$1.0 billion in forgone credit reflows of IDA. Subsequent financing commitments by donors would become available over time as reflows are forgone. At the same time, full upfront debt stock relief would lower IDA's resource base immediately by \$38.8 billion of written-off credit principal. Should debt relief costs rise in the future, as additional countries would qualify for HIPC assistance and reach their completion points, further upfront reduction of resources would occur.

31. **The financing modality initially put forward in the G8 Communiqué could reduce IDA's financial capacity significantly.** If financing commitments were restricted at the outset to about \$1 billion, the G8 financing proposal would lead to a net reduction of IDA's resource base by some \$37.8 billion at the start of implementation: \$38.8 billion of written-off principal less upfront donor financing of \$1 billion during IDA14. In consequence, the volume of assistance commitments of about \$32 billion agreed for the IDA14 replenishment would need to be reduced by about \$3.7 billion, to account for losses on principal reflows that have been - or are scheduled to be - committed in advance under IDA11 through IDA14: \$4.7 billion of irrevocably forgone but already committed principal reflows (see Section IV), less upfront donor financing of \$1 billion during IDA14. It is therefore important to seek other financing options which would not entail these effects. A further consideration is that, to be operational, the concept of "additionality" of donor resources to finance debt cancellation must be defined. The discussion below of the alternative financing options is therefore complemented by proposals with respect to establishing additionality.

C. Alternative Financing Options

32. **The two key elements of the G8 proposal – granting full debt relief and providing the required replacement resources – would need to be in balance in order to preserve IDA's resource base and protect its long-term financial capacity.** The critical importance of appropriate financing arrangements for these replacement funds was emphasized by Executive Directors during the August 4, 2005 informal Board meeting. The necessary financial balance could be maintained by linking the scope and timing of debt relief provided to the volume and timing of donor financing made available to IDA. Once IDA has received firm donor resources, credits of equal value may be removed from IDA's balance sheet irrevocably, so as to leave IDA's resource base unaffected. Even though credit write-offs would occur as and when donor financing becomes available, IDA's reported total assets would be lowered upfront due to required loan loss provisions for the estimated cumulative cost of debt relief.³⁴

³⁴ Credits would remain on IDA's balance sheet for as long as they are not irrevocably cancelled. Nevertheless, accounting standards would require the recognition of any probable future loss. A loan loss provision would therefore have to be made for the full principal amount of any expected future debt relief, thus lowering IDA's reported total assets upfront. Over time, as donors provide financing to cover the cost of debt relief, credits

33. **The “firmness” of donors’ financing commitments affects their recognition as assets in IDA’s financial statements.** Under IDA’s replenishment procedures, donors pledge financial support to IDA through an Instrument of Commitment (IoC), to be followed by issuance of three annual Promissory Notes³⁵ or, alternatively, direct cash transfers. While IoCs are contractual obligations, only Promissory Notes represent nonnegotiable obligations payable on demand that are recognized as assets on IDA’s balance sheet.³⁶ Voting rights are permanently allocated to any donor contributions that are reflected in IDA’s financial statements.

34. **Three financing options would allow the achievement of full debt cancellation while maintaining the necessary balance between debt relief and donor financing** (see Table 5).³⁷

- **Option 1: Upfront**

a.) Full debt service relief for eligible HIPC’s would be provided immediately and the associated debt stock would be removed from borrowers’ and IDA’s balance sheet during the IDA14 period.³⁸ At the same time, donors would make firm financing commitments for the entire cost of debt relief (\$42.5 billion in nominal terms) by providing three Promissory Notes³⁹ over the IDA14 period (FY06-08), in addition to donors’ existing financing commitments under IDA14. The present value – and therefore the current time cost to donors – of such an approach would be about \$24.5 billion as of July 1, 2006, using an annual discount rate of 3.5 percent, i.e., the discount rate in the recent IDA14 discussions.

b.) The Promissory Notes would be encashed over four decades to mirror the time profile of forgone credits reflows of IDA. This would ensure that IDA’s cash flows and assistance volumes remain unaffected by the debt relief provided. Alternatively, donors could opt to accelerate their encashments and receive payment discounts in return, provided that the present value of IDA’s costs of debt relief is maintained. If all donors provided one single Promissory Note upfront with full and immediate encashment, at the

would then be irrevocably written off and the donor resources recognized on IDA’s balance sheet so as to restore IDA’s reported assets back to their pre-relief volume.

³⁵ Promissory Notes are generally encashed over time to match the disbursement profile of IDA’s credits and grants. Accelerated encashment for individual donors is possible, if requested by the donor, resulting in either encashment discounts or increased contribution credits for the donor.

³⁶ The following are essential characteristics for an asset to be recognized in the financial statements of an entity: (i) it is probable that the future economic benefits will flow to the entity; (ii) the entity can obtain the benefit and control others’ access to it; (iii) the event that gives rise to the entity’s right to or control over the benefits has already occurred; and (iv) the asset can be measured reliably. These characteristics apply to Promissory Notes.

³⁷ In earlier discussions, upfront donor financing of IDA’s losses on already committed reflows over the next 10 years has been considered as an option. However, when combined with upfront debt cancellation, this option would fail to preserve IDA’s resource base and is, therefore, not discussed here.

³⁸ The removal of credits from the balance sheet of IDA would occur over the IDA14 period (FY06-08) as Promissory Notes are deposited with IDA.

³⁹ Using a series of three annual Promissory Notes would be in line with the established contribution procedures under regular IDA replenishments. For some donors, budgetary processes would no longer allow the provision of additional Promissory Notes by FY06, in which case the corresponding contribution would be made available by FY07.

end of FY06, the payment amount would be about \$24.5 billion (see Table 6).

Table 5: Financing Options for IDA Donors to Provide Full Debt Relief

Options	Debt Relief		Donor Financing			
	Debt Service Relief for HIPC's	Debt Stock Cancellation by IDA	Instruments of Commitment (IoCs)	Promissory Notes (PNs)	Encashments of Promissory Notes	Benchmark Required to Measure Additionality?
Option 1: Up-front	Immediate and full debt service relief	Debt stock cancellation in IDA14	One IoC up-front for total volume of debt relief	3 PNs to be provided over the 3 years of IDA14 (FY06-08)	Over 40 years, or accelerated if donors opt to obtain encashment discounts	No
Option 2: Over 4 IDA Replenishments	Immediate and full debt service suspension, becoming irrevocable over 12 years	Debt stock cancellation over 12 years	4 IoCs: first IoC in IDA14 to cover costs over first decade, followed by 3 subsequent IoCs in IDA15, IDA16 and IDA17 to cover costs over 2nd, 3rd and 4th decade, respectively	Total of 12 PNs, to be provided over 12 consecutive years, i.e. FY06-17 (3 PNs per replenishment)	Over 40 years, or accelerated if donors opt to obtain encashment discounts	Yes
Option 3: Over 4 Decades	Immediate and full debt service suspension as debt service is covered by donors	Progressive debt stock reduction over 4 decades	Total of 13 IoCs to be provided over 4 decades under each replenishment (IDA14 through IDA26)	Total of 39 PNs to be provided over four decades under each replenishment (IDA14 through IDA26)	Each PN encashed in full upon receipt, leading to total encashments over 40 years	Yes

c.) The main advantage of Option 1 for IDA's recipients would be the achievement of upfront debt cancellation combined with full additionality of donor funding, over and above future replenishments. A further advantage would be that donor encashments that are accelerated from a gradual encashment over 4 decades could advance the availability of resources and allow IDA to front-load its development assistance accordingly.⁴⁰

⁴⁰ However, an inter-temporal increase of aid upfront due to accelerated, discounted donor encashments would also lower available credit reflows of IDA in the future. Front-loading of aid would imply that donor's accelerated encashments would not be invested in the capital markets to generate returns equal to the discount rate (the procedure followed when donors elect to accelerate their encashments in regular IDA replenishments). The nominal volume of new IDA assistance provided upfront from accelerated donor encashments would be lower than the aggregate IDA assistance volume resulting from gradual encashments over 40 years. Their respective present values, however, would be identical.

- **Option 2: Over Four IDA Replenishments**

d.) This option acknowledges that fiscal constraints may prevent donors from providing firm financing upfront and in full. Instead, donors would cover the costs of debt relief over several replenishments, for example from IDA14 through IDA17 (hence over 12 years, FY06-17).

e.) Under this option, the full debt service for eligible HIPC's would be suspended immediately, providing 100 percent debt service relief from the beginning of the implementation of the G8 proposal. As firm donor financing becomes available over the four replenishments, the debt service moratorium would progressively become irrevocable by the removal of the associated debt stock from borrowers' and IDA's balance sheets in proportion to the receipt of firm donor financing commitments, in the form of Promissory Notes or cash. Full cancellation would occur after 12 years.

f.) Donors would provide firm financing commitments in a sequential manner. This could be achieved in many different ways. The time profile suggested here aims to provide a maximum amount of additional donor commitments by 2015, in line with the timeframe of the Millennium Development Goals. Donors would cover the debt relief costs over the first decade (\$8.9 billion, for the period FY07-16) through Promissory Notes in IDA14, in addition to their existing financing commitments under IDA14. In IDA15, they would cover debt relief costs over the second decade (\$17.6 billion, for FY17-26); in IDA16 those for the third decade (\$14.1 billion, for FY27-36); and in IDA17 those for the fourth and final decade (\$1.8 billion, for FY37-44), respectively. In order to assess the additionality of donors' financing commitments over their regular contributions in IDA15 through IDA17, donors would agree on a contribution benchmark.

g.) Donors' financing commitments for debt relief costs would be provided through three Promissory Notes under each of the four replenishments, in parallel with IDA's regular contribution procedures, resulting in 12 Promissory Notes over 12 years, starting in FY06 and ending in FY17. Promissory Notes could be encashed over the four decades to mirror the time profile of the forgone credit reflows of IDA. Alternatively, donors would have the option to accelerate encashments against significant payment discounts. If each of the 12 Notes were encashed in full and immediately upon receipt by IDA, donors' aggregate costs would be reduced to about \$28.7 billion (see Table 6).

h.) Option 2 would offer donors the advantage of extending their financing commitments over 12 years while providing debt stock relief more quickly than would be possible on a pay-as-you-go basis. At the same time, additionality of donor funding for debt relief would more likely be preserved over four replenishments than over four decades. Gradual cancellation of debt stocks would also allow for ongoing monitoring of continued country eligibility over the 12-year period, if so desired by the donor community. Front-loading of aid through accelerated donor encashments would also be possible, as under Option 1.

- **Option 3: Over Four Decades**

i.) This option provides for pay-as-you-go financing commitments by donors over four decades. Like in Option 2, the full debt service for eligible HIPC's would be suspended immediately, providing 100 percent debt service relief to borrowers' from the start of implementing the G8 proposal. The moratorium would remain in effect through the final maturity of all eligible credits, provided that donor financing will continue to become available sequentially over four decades. The associated debt stock would be paid off by donors over time and reduced to zero after four decades.

j.) Donors would provide firm financing commitments in conjunction with each IDA replenishment, over a total of four decades (IDA14 through IDA26). They would cover IDA's debt relief costs arising over the three years associated with each new replenishment, in line with current donor financing modalities under the HIPC Initiative. As under Option 2, to assess the additionality of donor financing over their regular contributions in IDA15 through IDA26, donors would agree on a contribution benchmark. Donors would provide 39 annual Promissory Notes, three for each replenishment, following IDA's regular contribution procedures. Encashment of Promissory Notes would take place so as to pay off the suspended debt service obligations for eligible HIPC's. To achieve this, each Promissory Note would be encashed in full upon receipt by IDA in order to match the debt service receipts forgone (see Table 6).

k.) The main advantage for donors under Option 3 is the back-loaded profile of their required financing commitments. However, this profile also implies the highest risk of not meeting the additionality of donor funding over four decades, even if such additionality could be assessed through an agreed benchmark. From the recipient countries' perspective, this would add to the risk that donor funding may not become available in full over time, leading potentially to a proportional reinstatement of debt service obligations of HIPC countries.

35. **Implementation of Options 1, 2 or 3 could occur even if final costs remain unknown for several years.** As under the financing arrangements for the HIPC Initiative, donors would reassess from time to time the updated costs of the G8 proposal to IDA. If required, donors would make additional financing commitments to meet incremental costs arising from new HIPC countries reaching their completion point. Once the final financing arrangements for the G8 proposal have become clearer, their implications for the current financing modalities under the HIPC Initiative would need to be examined.

36. **Costs under each Option can be illustrated per donor, using the IDA13 burden shares as an example.** Annex Table 5a illustrates the cost from the G8 proposal for each donor under Options 1 and 2, by replenishment and using the IDA13 burden shares, assuming a gradual encashment of Promissory Notes over 4 decades. Annex Table 5b shows the reduced costs under Options 1 and 2 when assuming that all donors accelerate their encashment of Promissory Notes as much as possible, with each Note being encashed in full upon receipt by IDA. Annex Table 6 shows estimated donor costs from the G8 proposal under Option 3.

Table 6: Donor Financing Requirements for the G8 Proposal
(assuming full acceleration of Notes encashment; USD million)

Payments during fiscal years		Option 1 - accelerated		Option 2 - accelerated		Option 3 (no acceleration possible)	
		Upfront cancellation & payment		Over IDA14 - IDA17 (12 years)		Over 40 years (pay-as-you-go)	
		IoC	Promissory Notes, encashed immediately	IoC	Promissory Notes, encashed immediately	IoC	Promissory Notes, encashed immediately
IDA14	FY06	24,538	24,538	6,023	2,008	1,019	
	FY07				2,008		489
	FY08				2,008		530
IDA15	FY09			11,895	3,965	2,275	583
	FY10				3,965		795
	FY11				3,965		896
IDA16	FY12			9,509	3,170	3,146	971
	FY13				3,170		1,042
	FY14				3,170		1,133
IDA17	FY15			1,226	409	3,798	1,215
	FY16				409		1,280
	FY17				409		1,304
IDA18	FY18					4,461	1,361
	FY19						1,477
	FY20						1,623
IDA19	FY21					5,826	1,815
	FY22						1,976
	FY23						2,035
IDA20	FY24					6,056	2,036
	FY25						2,012
	FY26						2,008
IDA21	FY27					5,783	2,008
	FY28						1,944
	FY29						1,832
IDA22	FY30					4,606	1,694
	FY31						1,541
	FY32						1,372
IDA23	FY33					3,054	1,191
	FY34						1,016
	FY35						846
IDA24	FY36					1,519	663
	FY37						488
	FY38						368
IDA25	FY39					690	282
	FY40						225
	FY41						183
IDA26	FY42					273	127
	FY43						77
	FY44						68
Total nominal		24,538	24,538	28,653	28,653	42,506	42,506
<i>PV on July 1, 2006</i>			24,538		24,538		24,538

Note: Donor payments in Options 1 & 2 are assumed at end of fiscal years; payments in Option 3 are assumed at mid-year, matching the cost profile.

Source: IDA staff estimates.

37. Furthermore, for Option 2, Annex Tables 7a and 7b illustrate the expected total contributions per donor, in IDA14 through IDA17, taking into account: (i) expected regular contributions (kept constant in real terms at the IDA14 level); (ii) HIPC contributions; (iii) financing of the cost under the G8 proposal when using Option 2; and (iv) contributions to replace forgone principal reflows due to IDA grants.⁴¹ Annex Table 7a assumes gradual encashment of Promissory Notes over 4 decades, while Annex Table 7b assumes maximum acceleration of donor encashments, leading to reduced costs under Option 2.

⁴¹ Assumed are 20% grants in IDA13 and 30% grants in IDA14 and subsequent replenishments.

38. **The use of IDA13 burden shares would, however, leave a structural financing gap of 9.4 percent.** The IDA13 donor burden shares do not add up to 100 percent. The gap could be covered by donors agreeing to contribute to the gap's coverage or by scaling up each donor burden share proportionally until reaching 100 percent.

D. Assessing Additionality

39. **Additionality of donor financing is required to ensure that poor countries will benefit from the G8 proposal.** There would be no additionality if donors' replacement resources to cover IDA's forgone reflows were merely deducted from regular financial support of donors to IDA. That is not the stated intention of the G8 proposal. During the IDA14 discussions, however, the lack of a clear benchmark has already impaired such additionality due to a substitution effect between regular donor contributions and contributions for HIPC costs.

40. **Without full, upfront donor financing, a contribution benchmark against which to assess the additionality of donor funds beyond IDA14 would be required.** The G8 Communiqué states that donors would provide contributions "additional to regular replenishments of IDA". If donor financing for debt relief were to take place over an extended period of time, beyond the IDA14 period (FY06-08), then measuring the additionality of debt relief financing would necessitate applying an agreed benchmark for donors' core contributions after IDA14. Various Executive Directors expressed support for the notion of a benchmark at the August 4, 2005 informal Board meeting and asked for further information on how to determine such a benchmark.

41. **Basing the contribution benchmark on the historical growth rate of donor contributions to IDA would be a conservative floor for a benchmark.** From IDA's inception in 1960 through IDA14, donor contributions to IDA increased by an average of 7.7 percent per annum in nominal SDR terms. Over the past two decades, from IDA8 through IDA14, donor contributions increased by 2.0 percent per annum. A benchmark which was based on maintaining the real value of IDA14 donor contributions in SDR terms would yield a result similar to the figure of 2.0 percent per annum.

42. **While an agreed contribution benchmark would facilitate measuring the additionality of debt relief financing, it could not ensure that such additionality occurs.** Donor financing for IDA is a sovereign decision for each government in the IDA donor community and this applies equally to the provision of resources for debt cancellation. Base funding for IDA depends on, and reflects, donors' continuing conviction that IDA is playing a vital developmental role and is meeting its commitments through a high performance-based standard. An agreed benchmark for additionality provides a basis for mutual accountability among donors and an important public signal of the commitment to increase resources for poor countries.

43. **Donor contributions to compensate for forgone credit reflows would be accounted for separately, for example through a dedicated Trust Fund.** In the IDA14 financing framework, donor contributions to cover IDA's cost under the HIPC Initiative have been recorded separately. The same treatment could apply in future replenishments with respect to financing commitments to replace forgone credit reflows due to the G8 proposal. A new Trust Fund, following the example under the HIPC Initiative, could further enhance transparency as well as accountability.

44. **The following key issues emerge from this Section:**

- To preserve IDA's resource base and to protect its long-term financial capacity, should there be a mechanism to synchronize the removal of credits from IDA's financial statements and the provision of replacement resources by the donors?
- What would be the merits and feasibility of the financing options presented? Which options should be developed in more detail?
- Should the donor burden shares to finance debt relief be scaled up proportionally to close the structural financing gap (i.e., 9.4% in IDA13)?
- Additionality of donor financing for G8 debt relief would need to be assessed through a benchmark for regular contributions to IDA in the future, unless debt relief is financed upfront. Should the contribution benchmark be aligned with the historical growth rate of donor contributions to IDA in SDR terms?

VII. LEGAL CONSIDERATIONS

45. **The G8 proposal as discussed in this paper would require IDA to provide 100 per cent debt cancellation for the eligible countries. In view of the provisions of IDA's Articles of Agreement and past decisions of its Executive Directors on IDA's power to provide debt forgiveness, there are two possible legal avenues to authorize IDA to implement the G8 proposal-- either interpretation or amendment of its Articles.** They can be summarized as follows:

- (a) Interpretation:⁴² IDA's Executive Directors could interpret IDA's Articles to authorize total debt forgiveness, unless the proposal would result in a fundamental change in IDA. The three financing options described in Section VI of this paper provide for IDA to hold legally binding commitments for full financial compensation and for debt to be cancelled in parallel with receipt of payments of financial compensation by IDA. In these circumstances, the appropriate avenue would be a decision by the Executive Directors interpreting the Articles of Agreement to authorize total debt forgiveness.
- (b) Amendment:⁴³ Fundamental changes go beyond the scope of interpretation and would call for an amendment to the Articles to authorize total debt forgiveness.

⁴² Article X(a) of the Articles provides that "any question of interpretation of the provisions of the Articles arising between any member and the Association or between any members of Association shall be submitted to the Executive Directors for their decision." Article X(b) also provides that "in any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board of Governors, the Association may, so far as it deems necessary, act on the basis of the decision of the Executive Directors."

⁴³ Following approval by the Executive Directors, amendments to IDA's Articles require approval by the Board of Governors and acceptance by three-fifths of the members having four-fifths of the voting power. Amendments affecting the member's right of withdrawal, pre-emptive rights or limitation on liability require acceptance by *all* members (Article IX). IDA's Articles have never been amended and an amendment may require additional domestic legal actions by members.

The earlier sections of this paper outline the potential for a material adverse impact on IDA's financial structure that could lead to fundamental change in IDA, without legally binding commitments and compensation arrangements. In these circumstances, the appropriate avenue would be an amendment, requiring action by the Executive Directors, the Board of Governors and IDA's members.

IDA's Executive Directors could make the initial determination of whether the proposal as finalized would lead to fundamental change, and, if not, whether the Articles could be interpreted to provide total debt forgiveness. Those decisions could be appealed by any member to IDA's Board of Governors. In addition, if revision of the IDA14 replenishment resolution is necessary or additional voting rights are to be allocated, a decision of the Executive Directors and the Board of Governors would be required.⁴⁴

46. **IDA's power to provide debt cancellation must derive from its Articles.** IDA's Articles of Agreement authorize IDA to agree to a relaxation or other modification of financing terms (Article V Section 3): "The Association may, when and to the extent it deems appropriate in light of all relevant circumstances, including the financial and economic situation and prospects of the member concerned, and on such occasions as it may determine, agree to a relaxation or other modification of the terms on which its financing shall have been provided."

47. **IDA provided *partial* debt forgiveness in the context of the Enhanced HIPC Debt Relief Initiative.** IDA was authorized to do so in 2000, when a formal interpretation of the Articles by the Executive Directors was considered necessary because "IDA's Articles do not contain any provisions specifically authorizing IDA to provide debt forgiveness." By a decision under Article X, the Executive Directors decided "that provision of debt relief through the forgiveness of a portion of the debt service on credits as it falls due is consistent with the terms of Article V, Section 3 of the Articles of Agreement."⁴⁵

48. **The G8 proposal contemplates *total* debt forgiveness for eligible IDA borrowers.** However, the 2000 interpretation and the legal memorandum of the General Counsel on which it was based only addressed *partial* debt forgiveness. At that time, the Executive Directors had determined that interpretation was necessary to authorize debt forgiveness and had issued a formal interpretation to provide partial debt forgiveness. Consequently, a further interpretation by the Executive Directors would be required to authorize IDA to provide *total* debt forgiveness as proposed by the G8.

49. **However, fundamental changes to IDA should not be introduced by way of interpretation.** Under applicable legal principles, "changes introduced by way of interpretation, rather than amendment, cannot in any event change the fundamental features of an international organization, as is [also] the case in respect of the constitution of a state."⁴⁶ Based on this legal principle, interpretation of IDA's Articles should not be undertaken in a manner that results in a fundamental change in IDA. Where fundamental changes would result, an amendment of the

⁴⁴ Article VI, Section 3 (a), and Article III, Section 1 (d), requiring a two-thirds majority for such decisions.

⁴⁵ The formal interpretation for HIPC can be found in "Heavily Indebted Poor Countries (HIPC) Initiative – Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework," IDA/R2000-4, January 10, 2000, at paragraph 11 and Annex 3.

⁴⁶ "Interpretation as Practiced at the World Bank," in Ibrahim F.I. Shihata, The World Bank Legal Papers, p. li.

Articles would be necessary, requiring approval by the Board of Governors and acceptance by members.

50. **Consequently, it would be for the Executive Directors to assess the likelihood of a material adverse impact leading to fundamental changes in IDA.** That assessment would determine whether total debt cancellation can be authorized through interpretation or through amendment.

51. **The potential impact on IDA of the proposed debt cancellation could be substantial.** This paper suggests that the cost to IDA of implementing the G8 proposal would be \$42.5 billion and may increase to as much as \$57.7 billion. Taken together with the estimated cost of the Enhanced HIPC Initiative (\$15.4 billion), this could result in a cost to IDA of \$73.1 billion and the cancellation of 37 to 46 percent of total IDA assets (see paragraphs 19 and 20 of this paper).

52. **In comparison, at the time the Enhanced HIPC Initiative was approved, the cost of IDA's debt forgiveness was estimated at \$5.7 billion.** Anticipated compensation to IDA included initial financing under IBRD control (estimated then at \$2.15 billion) and donor pledges of additional resources as required. A portion of a HIPC country's debt would be irrevocably forgiven at the completion point; IDA would bear the risk of loss for any shortfall. The magnitude of likely the impact on IDA was approximately 6 percent of IDA's assets, after factoring in IBRD's contribution.

53. **As the potential impact on IDA could therefore be substantial, relevant factors for the Executive Directors to consider include: (a) the impact on IDA's financial structure; (b) the impact on the rights of IDA members; and (c) the impact on IDA's financial position, including the legal commitments for replacement resources.**

54. **IDA's financial structure.** IDA was established as a revolving fund that reviews the adequacy of its resources periodically.⁴⁷ IDA financing takes the form of loans, and grants can only be made from replenishments that expressly authorize the making of grants.⁴⁸ The Articles, therefore, reflect a framework through which IDA's founders sought to ensure its financial viability through the establishment of a revolving fund with assets that would provide reflows, both as a source of future financing as well as an asset to be divided if a member withdraws from membership as discussed below.

55. **Rights of IDA members.** On withdrawal, each member of IDA has the right to receive a share of the revenue stream from credits made during membership, unless other settlement arrangements are agreed with IDA.⁴⁹ Cancellation of 37 to 46 percent of IDA's assets would reduce the revenues available to IDA for this purpose. Amendment of the Articles' provision giving each member the right to withdraw from IDA requires acceptance by all members.⁵⁰ By

⁴⁷ Article III, Section 1(a).

⁴⁸ Article V, Section 2(a).

⁴⁹ Article VII, Section 4(c) provides that if no agreement is reached within 6 months of a government ceasing to be a member of IDA, the government shall be entitled to receive: principal repayments derived from its subscriptions and held by IDA; and its *pro rata* share of all principal repayments on loans made prior to withdrawal.

⁵⁰ The requirement in Article IX (b) for *unanimity* in respect of an amendment refers only to Article VII, Section 1 (establishing the right to withdraw) and not to Section 4 (establishing the right to receive a portion of the repayments of credits lent during the membership).

comparison, in several national jurisdictions a super-majority of shareholders must approve changes having a material impact on the affairs of a private corporation or involving the disposal of a substantial part of its assets.⁵¹

56. Impact on IDA's financial position. The sequencing of debt cancellation and receipt of replacement resources would affect the impact on IDA's financial position. The financing options described in this paper provide for debt cancellation at the same time as, and in proportion with, the receipt of replacement resources. These options will also have an impact on IDA's financial statements and the required accounting treatment (see paragraphs 32 and 33 of this paper).

57. Legal nature of the commitments to provide replacement resources. There are a number of options for donor commitment and payment. Options already in use include:

- a. *Cash.* Payment of the total nominal cost in present value terms of the credits to be cancelled under the G8 proposal would provide the firmest commitment by donors.
- b. *Promissory Notes.* As in IDA's regular replenishments, members have the option to pay using non-negotiable, non-interest bearing Notes payable at par value and on demand, and these Promissory Notes are encashed by IDA over time in accordance with an encashment schedule. Such Promissory Notes are accounted for as assets in IDA's financial statements upon receipt and represent a legally binding commitment on the part of the member issuing it to the extent of the par value of the note.
- c. *Instruments of Commitment.* Instruments of Commitment (IoC) are utilized in the context of IDA's cyclical replenishments to formally notify IDA of the member's intention to participate in the replenishment and make the payments pledged in the course of the replenishment negotiations. The IoC constitutes a contractual obligation to pay the amount of a donor's subscription and contribution. As a matter of accounting treatment, an IoC is not recognized as an asset in IDA's financial statements (see paragraph 33).

58. Each of the three financing options proposed in Section VI envisages the provision of compensation by donors through the deposit of IoCs and Promissory Notes for the full amount of the debt relief. Promissory Notes would be encashed over a 40-year period to match the profile of the forgone reflows on the cancelled credits. IDA would institute an immediate moratorium on debt service from the eligible countries and irrevocable debt stock relief would take place as actual payments are received by IDA. Under each option, IDA would hold legally binding commitments for financial compensation for the costs to IDA of the debt cancellation, and debt cancellation would occur in tandem with payments to IDA. The Executive Directors could reasonably determine that the likelihood of material adverse impact resulting in a fundamental change to IDA is low. In that case, the decision to provide total debt cancellation

⁵¹ For example, in Germany, the *Aktiengesetz* (law governing publicly traded companies) requires three-fourths majority of shares voting at a meeting to authorize an amendment of its articles or a sale of assets that results in a change in control of the corporation. In the U.S., the New York Business Corporation law provides for a two-thirds vote of all outstanding shares entitled to vote to approve a merger or consolidation while the Model Business Corporation Act requires a majority of all voting shares (rather than a simple majority of votes cast) to approve a merger.

could be taken by the Executive Directors through an interpretation of Article V, Section 3 as authorizing total debt forgiveness.

59. In addition, all three options presented in this paper would require the Executive Directors to decide that debt service payments from eligible HIPC's would temporarily be suspended. Such a moratorium is similar to the revocable interim debt relief already provided under the Enhanced HIPC framework and would fall within IDA's existing power to relax or otherwise modify terms.

60. **Implementation of the proposal may also entail changes to the agreed IDA14 replenishment framework, in particular with respect to grant allocations under IDA14.** IDA's replenishments are governed by its Articles and a Board of Governors' resolution which authorizes the general increase in subscriptions and adopts the conclusions and recommendations set out in the report of the IDA Deputies as approved by its Executive Directors. Revisions to the IDA14 resolution or to any of the conclusions or recommendations adopted by the Board of Governors would require approval by a two-thirds majority of IDA's Board of Governors,⁵² after approval by the Executive Directors. Allocation of additional voting rights would similarly require the approval of the Board of Governors.⁵³

VIII. ENSURING THE BENEFITS OF DEBT RELIEF

61. **Executive Directors expressed the view that the process of reaching HIPC Completion point involved adequate conditionality, including on governance and related issues.** For post-completion point countries, however, it would be appropriate to establish reasonable criteria to ensure that these countries have continued to meet adequate standards of governance and public expenditure management before debt relief would be committed. The G8 Finance Ministers' Communiqué stated that "good governance, accountability and transparency are crucial to releasing the benefits of debt cancellation" and asked that "the World Bank and IMF report on improvements on transparency on all sides and on the drive against corruption so as to ensure that all resources are used for poverty reduction". The G8 technical note proposed the following eligibility criteria for debt relief under the G8 proposal: "All countries receiving the relief must be current with their repayment obligations to the IFIs. In addition, countries must not have experienced serious lapses, including in governance, such that their IMF programmes would be at risk." All 18 completion point countries currently meet the first criterion. Assessing the second criterion could require a more in-depth analysis of quantitative and qualitative information.

62. **To assess whether post-completion countries continue to meet satisfactory benchmarks for governance, accountability and transparency, a two-step process could be followed.** First, countries would need to continue meeting the key HIPC criteria that made them eligible for completion point. This includes satisfactory performance under: (i) the country's PRSP; and (ii) its Fund program – should an ongoing program exist. If the country does not have a program with the Fund, a satisfactory review of its recent macroeconomic policy performance, as assessed by the Fund, would be required. Second, the Bank would assess governance-related aspects of the CPIA, to determine whether performance has been maintained

⁵² Article III, Section 1(d).

⁵³ Article VI Section 3 (a) provides that subscriptions other than initial subscriptions of original members shall carry such voting rights as the Board of Governors shall determine.

on governance, public expenditure management and related factors since completion point.⁵⁴ In cases of sudden changes in governance conditions, other relevant assessments could also be utilized to inform IDA management.

63. Staff could present this assessment, prepared in coordination with the IMF and the AfDF for the 18 post-completion point HIPCs, to Executive Directors, who could decide on the countries that would receive relief. For countries that do not meet eligibility criteria, remedial actions could be recommended which, if undertaken, would make those countries eligible for debt relief under the G8 proposal. If a debt stock cancellation is provided, eligibility criteria for post-completion point HIPCs would only need to be evaluated at entry, and a one time assessment would be conducted prior to authorizing debt relief. For HIPCs that are yet to reach completion point, no additional assessment along these lines would be required, as eligibility for completion point would provide adequate assurances with respect to governance, accountability and transparency. Bank and Fund staffs would continue to monitor and report on the overall efficiency of public expenditure as well as on progress in reducing corruption and enhancing transparency in recipient countries.

64. Conditionality at entry could be complemented by continued monitoring of eligible countries' governance standards depending on the financing option adopted. Entry conditionality is consistent with the first financing option discussed in Section V – upfront, 100 percent debt stock cancellation for HIPCs at completion point.⁵⁵ If IDA were to provide debt relief in proportion to the amount of additional financing available (the second and third financing options discussed in Section VI) this would offer an opportunity to re-assess whether countries continue to maintain adequate standards for governance, accountability and transparency. In this case, debt relief would be dependent on prior receipt of donor resources as well as on countries maintaining adequate standards for governance, accountability and transparency as outlined above. Under this approach, the governance assessment outlined above would need to be carried out periodically over some agreed timeframe, in contrast to the one-time assessment that would be prepared for the 18 completion point HIPCs if only entry conditionality was adopted.

65. The following key issues emerge from this Section:

- Are the approach to and criteria outlined in this Section appropriate for the assessment of eligibility for additional debt relief under the G8 proposal?
- Would entry conditionality for debt relief suffice, or would it be appropriate to introduce some form of continuing monitoring of eligible countries' governance standards?

⁵⁴ Among the 16 indices that form the CPIA (Country Policy and Institutional Assessment), five form a “cluster” related to public sector governance. This cluster includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, transparency, accountability and corruption in the public sector.

⁵⁵ In fact, debt stock cancellation would amount to unconditional budget support for 40 years.

IX. IMPLICATIONS FOR THE DEBT SUSTAINABILITY FRAMEWORK, POST-DEBT RELIEF BORROWING, AND THE TERMS OF NEW IDA ASSISTANCE

66. **Following debt relief, the amount and terms of new borrowing by the beneficiary countries are critical issues.** To the extent that debt reduction would significantly lower debt ratios of eligible countries, the low-income country debt sustainability framework (DSF)⁵⁶ approved by the Bank and Fund in April 2005 would likely signal a low risk of debt distress.⁵⁷ In principle, countries that receive debt relief would then have the ability to resume borrowing from IDA. The G8 technical note, however, states that “the future borrowing behavior of countries will have to be monitored to ensure that they do not borrow excessively from sources other than IDA and the AfDF” and asked the Bank, the IMF, and the OECD for additional work to address these issues. During the Board discussion on August 4, 2005, Executive Directors shared the G8’s concern that countries do not immediately re-accumulate debt levels that could become unsustainable, though views differed on what this should imply. Directors were especially concerned that countries receiving debt relief would contract new non-concessional debt (the “free rider problem”), from external and domestic sources, and acknowledged that preventing this would not be easy. Sharply limiting borrowing from IFIs could involve denying HIPC’s highly concessional resources and increasing incentives for them to borrow elsewhere, including from domestic sources, almost certainly at less concessional terms.

67. **The current DSF, in combination with monitoring “free riding” behavior, provides a framework to help address these concerns.**

- First, the forward-looking framework allows for a considerable degree of judgment in determining a country’s prospects for long-term debt sustainability, and is designed to capture any potential rapid accumulation of debt in the future. DSAs will be conducted on a regular basis to monitor new borrowing and provide early warning signals if debt ratios are deteriorating.
- Second, some post-completion-point HIPC’s have relatively strong policies and institutions, and if their debt ratios decline significantly following debt relief, they would have a particularly low risk of debt distress in comparison with other low-income countries. On the other hand, countries that will *not* benefit from debt cancellation could face a higher risk of debt distress, making them more appropriate candidates for grants.
- Third, as Executive Directors pointed out on August 4, the main risk for a rapid re-accumulation of debt is likely to stem from borrowers seeking access to financing on non-concessional terms from sources other than multilateral institutions. This is especially the case if the availability of concessional finance is subject to tight constraints.

⁵⁶ The framework, which was approved by the Fund and Bank Boards in April 2005, consists of three pillars: (i) a forward-looking analysis of debt and debt service dynamics; (ii) an assessment of debt sustainability guided by indicative policy-dependent debt-burden thresholds; and (iii) an appropriate borrowing (and lending) strategy that is informed by the risk of debt distress. See IDA/R2005-0056.

⁵⁷ This outcome assumes that debt relief will be provided irrevocably, i.e., not as debt-service relief subject to ongoing conditionality, and may not hold for non-African HIPC’s with large exposure to creditors not included in the G8 proposal.

Executive Directors expressed the view that it would be appropriate to give more time for the implementation of the framework before making a judgment on how effective it is. An opportunity to modify the DSF, if needed in light of decisions on debt relief, will arise in the context of its review, planned for Spring 2006. This timing would also be aligned well with the mid-term review of IDA14, planned for late-2006.

68. **The August 4 Board discussion also generally supported the notion that the current IDA14 grant allocation system could help prevent re-accumulation of unsustainable debt levels by recipients of debt relief.** The IDA14 agreement bases its grant allocations on a “snapshot” of a country’s debt burden indicator. The forward-looking aspects of the DSF are expected to replace the current “snapshot approach” by the time of mid-term review of IDA14. Forward-looking debt sustainability analyses (DSAs) for completion point HIPC countries could inform a phased approach to new lending in these countries. Furthermore, IDA, the AfDF, and the Asian Development Fund are actively sharing information on their respective grant allocation policies, strengthening the coherence among the three institutions.

69. **Bank staff will monitor and report on the incidence of “free riding” in countries receiving debt relief, based on policies designed to limit non-concessional borrowing by IDA grant recipients.** The definition of concessionality underpinning performance criteria in PRGF-supported arrangements could be used as indicative reference points to identify actual instances of “free riding”.⁵⁸ This process would involve a degree of reliance on the IMF – in particular on its monitoring, surveillance and program advice to countries in the context of its PRGF programs and through existing safeguards available to limit non-concessional debt creation. In addition, staff could detect instances where countries borrow from non-concessional sources in the course of DSA preparation. New IDA assistance could be withheld for HIPC countries that demonstrate unsustainable borrowing behavior, including by contracting new non-concessional loans on a regular basis, after receiving 100 percent debt stock cancellation from IDA.

70. **However, the IDA14 grant allocation system may itself need to be modified if debt relief under the G8 proposal is interpreted as affecting eligible countries’ ability to borrow on regular IDA terms.** The G8 Communiqué states that eligible countries should be “eased into new borrowing” to prevent re-accumulation of unsustainable debt levels. If this is interpreted to mean that countries would be discouraged from non-concessional borrowing, then the IDA14 grants system would not be affected because the DSF itself contains safeguards to discourage excessive post-relief borrowing. If, on the other hand, countries receiving G8 debt relief should subsequently receive more grants from IDA, irrespective of their risk of debt distress, then this would be inconsistent with the IDA14 grant allocation system and would imply a change to the IDA14 framework, requiring, as noted in Section VII, two-thirds majority vote in IDA’s Board of Governors.

71. **The following key issues emerge from this Section:**

- Should the mechanisms described in paragraph 69 be applied to instances of “free riding” in the context of debt relief?

⁵⁸ According to this definition, debt would be defined as concessional “on the basis of currency-specific discount rates based on OECD commercial interest reference rates, and including a grant element of at least 35 percent, provided that a higher grant element may be required in exceptional cases”. Refer to IMF’s Executive Board Decision No. 11096-(95/100), adopted October 25, 1995.

- Would debt relief under the G8 proposal affect eligible countries' ability to borrow on regular IDA terms?
- Would an adjustment of the DSF be necessary at this time, in light of existing safeguards and the planned review of the framework in the Spring of 2006?

X. COORDINATION WITH OTHER CREDITORS

72. **Implementation of the G8 proposal will require close coordination between the three participating multilateral institutions.** Implementation of the G8 proposal by IDA could proceed in concert with the IMF and the AfDF. This would be desirable to ensure that debt relief would indeed be received from all three institutions as envisaged in the G8 proposal, and that no one institution is providing debt relief while another's debt is being serviced in full. A potential disadvantage might be to hold up delivery of debt relief should any institution face a delay in its approval process.

73. **The following key issue emerges from this Section:**

- Should IDA proceed with implementation only in concert with the IMF and the AfDF?

XI. CONCLUSIONS AND NEXT STEPS

74. **This paper has examined a number of options for translating the broad objectives of the G8 proposal into an operational framework for IDA.** Following a brief description of the key features of the proposal, the paper has discussed the potential benefits of debt relief for recipient countries and described the main resource allocation, costing, financing, legal, and country performance monitoring implications for IDA.

75. **The key issue on which guidance is sought is how to ensure that eligible countries fully benefit from debt relief under the G8 proposal, while preserving IDA's future financial capacity.** Additional guidance would also be needed on a number of implementation issues, including: (i) focusing the reallocation of donor replacement resources on the countries with the greatest need for concessional resources; (ii) assessing the financial impact of the G8 proposal on IDA and its implications for the available legal avenues; and (iii) preventing excessive non-concessional borrowing by eligible countries in the future, so that the very goals of debt relief under the G8 proposal are not undermined.

76. **Management also seeks guidance on the next steps towards implementation of the G8 proposal.** Following the meeting of Deputies on September 11, 2005, Management will report back to the Executive Directors on the discussions and guidance received on the core implementation issues described in this paper.

G8 Finance Ministers' Final Communiqué, London, 10-11 June 2005

1. We reaffirm the commitments we made at our meeting in February this year to help developing countries achieve the Millennium Development Goals by 2015, to make particular efforts in Africa, which on current rates of progress will not meet any of the Millennium Development Goals by 2015, and to set out for G8 Heads of Government and States the steps we believe can be taken to further implement the Monterrey Consensus on an open world trade system; increased aid effectiveness; absorptive capacity; increased levels of aid; and debt relief.
2. We reaffirm our view that in order to make progress on social and economic development, it is essential that developing countries put in place the policies for economic growth, sustainable development and poverty reduction: sound, accountable and transparent institutions and policies; macroeconomic stability; the increased fiscal transparency essential to tackle corruption, boost private sector development, and attract investment; a credible legal framework; and the elimination of impediments to private investment, both domestic and foreign.
3. We reaffirm our view of February that it is crucial that the international community improves the effectiveness of aid. In particular bilateral and multilateral donors need to: harmonise their operational procedures; align aid behind country-owned priorities for growth and poverty reduction; and provide for measurable results. Donors must also: focus their aid on poverty reduction; enhance efforts to untie aid, based on DAC principles; and deliver aid in a more predictable way. We welcome the progress made at the Paris OECD DAC High Level Forum in March, and call on the OECD DAC to set by September this year, ambitious and credible targets against all the indicators of progress agreed at the March meeting.
4. A successful outcome for the Doha Development Agenda, our highest common priority in trade policy for the year ahead, will bring real and substantial benefits to poor countries. The Hong Kong Ministerial in December will be a critical step towards a successful outcome of the DDA in 2006, which delivers substantial increases in market access for developing countries; establishes a timetable for the elimination of all trade-distorting export support in agriculture; and provides effective special and differential treatment for developing countries.
5. However, not all countries will benefit in the short term from reductions in trade barriers. Some countries lack the capacity to produce and deliver goods to international markets competitively; for others, the transitional costs of moving to more open markets may be substantial. We also recognise that poor countries face particular problems and need the flexibility to decide, plan and sequence reforms to their trade policies to fit with country-owned development programmes. We commit to provide support to enable developing countries to benefit from trade opportunities. We call on the IFIs to submit proposals for the Annual Meetings for additional assistance to countries to develop their capacity to trade and ease adjustment in their economies, based on a systematic analysis of transition costs, so they can take advantage of more open markets.

6. Tackling diseases that undermine growth and exacerbate poverty in developing countries will require not only strengthened health systems, but also improved treatment, including universal access for AIDS treatment by 2010 and development of vaccines, including for HIV and malaria. We have made progress this year in implementing the Global HIV Vaccine Enterprise agreed at Sea Island, and are committed both to taking this further; and to scaling up our support for vaccines and medicines research through the successful Public Private Partnerships model. We call for a report on progress by the end of the year. We recognise also that advance purchase commitments (APCs) are potentially a powerful mechanism to incentivise research, development and the production of vaccines for HIV, malaria and other diseases. We asked Minister Siniscalco to consult the relevant institutions, governments and industry, with the aim of developing concrete proposals by the end of this year.

7. The Enhanced HIPC Initiative has to date significantly reduced the debt of 27 countries, and we reaffirm our commitment to the full implementation and financing of the Initiative. Moreover, individual G8 countries have gone further, providing up to 100 percent relief on bilateral debt. However, we recognise that more still needs to be done and we have agreed the attached proposal. We call upon all shareholders to support these proposals which we will put to the Annual Meetings of the IMF, World Bank and African Development Bank.

8. We also recognised at Monterrey that a substantial increase in ODA and private capital flows will be required to assist developing countries to achieve the Millennium Development Goals. We acknowledge the efforts of all donors, especially those who have taken leading roles in providing and increasing ODA and committing to further increases.

9. Specifically we welcome: the progress the EU has made towards the 0.39 percent ODA/GNI target agreed at Barcelona; the announcements by France and the UK of timetables to reach 0.7 percent ODA/GNI by 2012 and 2013 respectively; and the recent EU agreement to reach 0.7 percent ODA/GNI by 2015 with an interim target of 0.56 percent ODA/GNI by 2010 - a doubling of EU ODA between 2004 and 2010. In line with the EU agreement, Germany (supported by innovative instruments) and Italy undertake to reach 0.51 percent ODA/GNI in 2010 and 0.7 percent ODA/GNI in 2015. We welcome the tripling of US ODA to Sub-Saharan Africa and the near doubling of US ODA to all developing countries since 2000. The US now accounts for roughly 25 percent of all ODA to Sub-Saharan Africa. In addition, we welcome the launch of the Millennium Challenge Account and the President's Emergency Plan for AIDS Relief. We welcome Japan's commitment to double its ODA to Africa over the next three years and Canada's budget plans to finance its commitment to double aid levels from 2001 to 2010, and to double aid to Africa by 2008. In addition, we welcome Russia's \$2.2 billion contribution to the HIPC Initiative.

10. As we prepare for decisions at the G8 Summit in Gleneagles we continue our work programme on: the IFF and its pilot, the IFF for Immunisation; some of the revenue proposals from the Landau Report, including a pilot project, supported and led by France and Germany, for a contribution on air travel tickets to support specific development projects and to refinance the IFF; the Millennium Challenge Account; the Enhanced Private Sector Assistance with the African Development Bank; and other financing measures; so that decisions can be made on how to deliver and bring forward the financing urgently needed to achieve the Millennium Development Goals.

11. Nigeria is key to the prosperity of the whole continent of Africa. We welcomed Nigeria's progress in economic reform as assessed in the IMF's intensified surveillance framework, noted its move to IDA-only status, and encouraged them to continue to reform. We are prepared to provide a fair and sustainable solution to Nigeria's debt problems in 2005, within the Paris Club.

G8 Proposals for HIPC debt cancellation

Donors agree to complete the process of debt relief for the Heavily Indebted Poor Countries by providing additional development resources which will provide significant support for countries' efforts to reach the goals of the Millennium Declaration (MDGs), while ensuring that the financing capacity of the IFIs is not reduced. This will lead to 100 percent debt cancellation of outstanding obligations of HIPCs to the IMF, World Bank and African Development Bank. Additional donor contributions will be allocated to all IDA and AfDF recipients based on existing IDA and AfDF performance-based allocation systems. Such action will further assist their efforts to achieve the MDGs and ensure that assistance is based on country performance. We ask the World Bank and IMF to report to us on improvements on transparency on all sides and on the drive against corruption so as to ensure that all resources are used for poverty reduction. We believe that good governance, accountability and transparency are crucial to releasing the benefits of the debt cancellation. We commit to ensure this is reaffirmed in future bilateral and multilateral assistance to these countries.

Key elements:

- Additional donor contributions will be allocated to all IDA and AfDF recipients based on existing IDA and AfDF performance-based allocation systems.
- 100 percent IDA, AfDF and IMF debt stock relief for Completion Point HIPCs.
- For IDA and AfDF debt, 100 percent stock cancellation will be delivered by relieving post-Completion Point HIPCs that are on track with their programmes of repayment obligations and adjusting their gross assistance flows by the amount forgiven. Donors would provide additional contributions to IDA and AfDF, based on agreed burden shares, to offset dollar for dollar the forgone principal and interest repayments of the debt cancelled. Additional funds will be made available immediately to cover the full costs during the IDA-14 and AfDF-10 period. For the period after this, donors will commit to cover the full costs for the duration of the cancelled loans, by making contributions additional to regular replenishments of IDA and AfDF.
- The costs of fully covering IMF debt stock relief, without undermining the Fund's financing capacity, should be met by the use of existing IMF resources. In situations where other existing and projected debt relief obligations cannot be met from the use of existing IMF resources (e.g., Somalia, Liberia, and Sudan), donors commit to provide the extra resources necessary. We will invite voluntary contributions, including from the oil-producing states, to a new trust fund to support poor countries facing commodity price and other exogenous shocks.

- Globally and on this basis we are committed to meeting the full costs to the IMF, World Bank and African Development Bank. We will provide on a fair burden share basis resources to cover difficult-to-forecast costs, in excess of existing resources, to the IMF, IDA and AfDF over the next three years. Subject to further analysis by the institutions we will provide up to \$350-500 million for this purpose. We are also committed, on a fair burden share basis, to cover the costs of countries that may enter the HIPC process based on their end-2004 debt burdens. We will also seek equivalent contributions from other donors to ensure all costs are covered and we will not jeopardize the ability of these institutions to meet their obligations. Utilize appropriate grant financing as agreed to ensure that countries do not immediately re-accumulate unsustainable external debts, and are eased into new borrowing.

We call upon all shareholders to support these proposals which would be put to the Annual Meetings of the IMF, World Bank and African Development Bank by September.

Technical Note: G8 proposal for HIPC debt cancellation⁵⁹

The G8 have put forward a proposal to complete the process of debt relief for the Heavily Indebted Poor Countries by providing additional development resources which will provide significant support for countries' efforts to reach the goals of the Millennium Declaration (MDGs), while ensuring that the financing capacity of the IFIs is not reduced. This will lead to 100 percent debt cancellation of outstanding obligations of HIPCs to the IMF and the concessional financing arms of the World Bank and African Development Bank. Additional donor contributions will be allocated to all IDA and AfDF recipients based on existing IDA and AfDF performance-based allocation systems. Such action will further assist their efforts to achieve the MDGs and ensure that assistance is based on country performance. The G8 have asked the World Bank and IMF to report on improvements on transparency on all sides and on the drive against corruption so as to ensure that all resources are used for poverty reduction. The G8 believe that good governance, accountability and transparency are crucial to releasing the benefits of the debt cancellation. They commit to ensure this is reaffirmed in future bilateral and multilateral assistance to these countries.

For the IDA and the IMF, the G8 call upon all shareholders to support these proposals which will be put to the Annual Meetings in September, and to be implemented as soon as operationally feasible thereafter. For the African Development Fund, we will work with staff to have proposals agreed in the appropriate forum at the earliest opportunity.

1. INTERNATIONAL DEVELOPMENT ASSOCIATION AND AFRICAN DEVELOPMENT FUND

Under the proposal on-track HIPCs would have 100 percent of their debts to IDA and AfDF cancelled when they reach Completion Point under the Enhanced HIPC Initiative, subject to an agreed cut-off date, after which new disbursements would not be eligible for relief. 18 countries⁶⁰ would immediately be able to benefit from this irrevocable relief, provided they were on track,⁶¹ with the remaining unsustainable HIPCs receiving relief as they reached the Completion Point. In the first instance, this relief would be accompanied by a reduction in each eligible country's IDA and AfDF allocation equal to the amount of the debt service (principal and service charge) it would have owed without the debt cancellation.

To ensure that additional resources will be available for poverty reduction, the proposal would provide additional contributions to IDA and AfDF, based on agreed burden shares, to match dollar-for-dollar the forgone principal and service charge repayments of the debt cancelled.

⁵⁹ Prepared by the G8 debt experts.

⁶⁰ Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia.

⁶¹ All countries receiving the relief must be current with their repayment obligations to the IFIs. In addition, countries must not have experienced serious lapses, including in governance, such that their IMF programmes would be at risk.

Additional funds will be made available immediately to cover the full costs during the IDA-14 and AfDF-10 period. For the period after this, donors would commit to cover the full costs for the duration of the cancelled loans, which in some cases would be as long as 50 years, by making contributions additional to regular replenishments of IDA and AfDF. To ensure additionality, we ask that the World Bank and African Development Bank to come forward with proposals on how they can present the costs of this relief per donor, to be paid alongside the regular contributions to the core replenishments – for example, by separating the donor contributions required to offset forgone repayments associated with this debt relief proposal from core contributions.

This proposal would therefore provide recipient countries with the certainty of 100 percent debt cancellation while preserving the institutions' financing capacity and ensuring that additional resources would be allocated in accordance with maximising their impact on poverty reduction across all low-income countries.

Allocation of Additional Resources

The additional resources will be allocated through each MDB's existing allocation mechanism on the basis of governance, need and ability to use the resources effectively for poverty reduction and growth. In this manner, all low-income countries would receive an increase in net assistance flows commensurate with performance levels. This approach serves several purposes: (1) reinforces existing incentives for countries to pursue responsible, pro-growth policies; (2) maintains equity between HIPC and other low-income countries; and (3) addresses moral hazard problems since new development assistance is allocated based on current performance and not current debt payment obligations. This highlights the G8 countries' emphasis that good governance, accountability and transparency are crucial to releasing the full benefits of the debt cancellation.

2. THE INTERNATIONAL MONETARY FUND

The proposal for the IMF is to provide 100 percent debt stock relief based on the same eligibility (i.e. a country having reached the Completion Point under the Enhanced HIPC Initiative and provided they were on track), subject to a cut-off date of 1st January 2005, after which new disbursements would not be eligible for relief. Until this proposal is implemented current policies regarding repayment of outstanding obligations continue to apply. Repayments due prior to the implementation date will not be affected by this proposal. The substantial proportion of outstanding debts to the IMF from these countries is in the form of PRGF loans. The G8 believe that the very small amounts of GRA debts outstanding to eligible HIPC should also be eligible for relief, subject to an assessment from Staff on the options for overcoming any legal and technical obstacles. The costs of fully covering IMF debt stock relief, without undermining the Fund's financing capacity, should be met by the use of existing IMF resources. While the proposal is clear that debt relief should be provided on an irrevocable basis, it could be financed on a flow basis if that is a more efficient option. We ask the IMF to review the options. In situations where other existing and projected debt relief obligations cannot be met from existing IMF resources (e.g. Somalia, Liberia, and Sudan), donors would commit to provide the extra resources necessary. The proposal also commits participants to provide (on a fair burden share

basis) resources, if necessary, to cover possible costs of relief for potential new entrants to the Initiative based on end-2004 data.

IMF Internal Resources

The principal outstanding to the 35 unsustainable HIPCs (excluding the arrears cases) stands at around 4.1 billion SDR. Of this, around 2.8 billion SDR relates to the 18 post-Completion Point HIPCs.

The proposal envisages using a combination of internal resources to fund the relief. These internal resources are currently being used to finance HIPC relief or to subsidize lending to the HIPCs. The self-sustained PRGF, which will be operational in 12-18 months time and is based upon resources currently in the Reserve Account, would not be affected by any of these measures, and its 0.6 – 0.7 SDR billion financing capacity would not be reduced. The G7 agreed in April that the self-sustained PRGF should be adequately equipped to be responsive to short-term adjustment needs and to meet future demand as assessed by the IMF.

In identifying existing internal resources, relief would be financed in the first instance through amounts already set aside to pay for HIPC relief: the resources in the HIPC Umbrella Accounts (c. 0.5 billion SDR) and the interest generated in the Special Disbursement Account (c.0.3 billion SDR).

Secondly, there is the corpus of the 1999 off-market gold transactions, which amounts to 2.2 billion SDR. While the interest earned on this is currently being used to subsidize HIPC relief, the corpus itself was not committed.

Thirdly, there are resources currently in the PRGF Subsidy Account. Of the 1.8 billion SDR currently in this account, approximately 0.8 billion SDR will be needed to subsidize lending committed during the interim PRGF to non-HIPCs. Provision will be required for continued lending to pre-Completion Point HIPCs. Debt relief in the IMF (and IDA and AfDF) can be expected to reduce countries' financing needs, and therefore the need for PRGF resources. However, further lending may be required for post-Completion Point HIPCs during the interim PRGF and further on.

Globally and on this basis the G8 have committed to meeting the full costs to the IMF, IDA and African Development Fund. The G8 will provide on a fair burden share basis resources to cover difficult-to-forecast costs, in excess of existing resources, over the next three years. Subject to further analysis by the institutions, the G8 have committed to provide up to \$350-500 million to the IMF for the interim PRGF. The G8 are also committed, on a fair burden share basis, to cover the costs of countries that may enter the HIPC process based on their end-2004 debt burdens. The G8 will seek equivalent contributions from other donors to ensure all costs are covered and will not jeopardize the ability of these institutions to meet their obligations.

Ensuring Long-Term Debt Sustainability

The G8 share the common objective of ensuring that countries do not immediately reaccumulate debt levels that could become unsustainable. The strategic provision of MDB grants is a key tool in ensuring that a new build-up of unsustainable debts does not re-occur. At the same time, the G8 recognize the role of IDA and the AfDF as providers of concessional loans as well as grants.

The G8 do not therefore anticipate a substantial increase or decrease in the level of grants envisaged under IDA-14 and AfDF-10 agreements to be provided to HIPC's as a consequence of this relief. We will work with Staff of the IFIs to ensure that appropriate mechanisms – compatible with the Debt Sustainability Framework – are put in place to meet these goals.

The future borrowing behaviour of countries will have to be monitored to ensure that they do not borrow excessively from sources other than IDA and the AfDF. For example, the export credit agencies of G8 and other countries will need to take into account the fragile financial condition of these countries in order to exercise the restraint in lending that is necessary. We therefore look forward to work from the World Bank, IMF, and OECD to address these issues.

Support For Countries Facing Exogenous Shocks

This proposal also entails establishing a new trust fund that will support poor countries facing commodity price and other exogenous shocks. Voluntary contributions for subsidies and loanable resources will be invited, including from oil-producing states. These resources will complement an exogenous shocks window in the PRGF Trust.

ANNEX 3 – TABLES AND CHARTS

Annex Table 1:
38 HIPC and Sunset Clause Countries: Cost Estimates of G8 Proposal to IDA ^{1/2/}
 (USD million equivalents)

Post-Completion Point Countries	30,269
Africa	25,892
Benin	775
Burkina Faso	941
Ethiopia	2,743
Ghana	3,458
Madagascar	2,138
Mali	1,419
Mauritania	626
Mozambique	1,600
Niger	876
Rwanda	493
Senegal	2,159
Tanzania	3,389
Uganda	3,104
Zambia	2,171
Latin America	4,377
Bolivia	1,745
Guyana	209
Honduras	1,451
Nicaragua	972
Post-Decision Point Countries	7,226
Burundi	101
Cameroon	1,052
Chad	886
Congo, Dem. Rep. of	1,264
Gambia, The	248
Guinea	1,224
Guinea-Bissau	174
Malawi	1,776
Sierra Leone	455
São Tomé and Príncipe	45
Total 28 HIPCs	37,495
Pre Decision Point Countries	5,011
Central African Republic	331
Comoros	100
Rep. Of Congo	190
Cote d'Ivoire, Republic of	1,739
Lao P.D.R.	604
Liberia	76
Myanmar	602
Somalia	154
Sudan	570
Togo	646
Total 38 HIPCs	42,506
Ring-fenced Countries (Sunset Clause)	2,410
Eritrea	235
Haiti	430
Kyrgyz Republic	491
Nepal	1,254
Other Countries with currently incomplete data (Sunset Clause)	11,623
Bangladesh	9,218
Sri Lanka 3/	2,339
Bhutan 3/	66
Tonga	..
Source: IDA staff estimates	
1/ Based on cutoff date of December 31, 2004 and implementation date of July 1, 2006	
2/ Costs are defined as cumulative debt service obligations after incorporating debt relief under the HIPC Initiative (unless otherwise stated).	
3/ Cost estimates for Sri Lanka and Bhutan include any HIPC relief that may be provided if these countries enter the Initiative.	

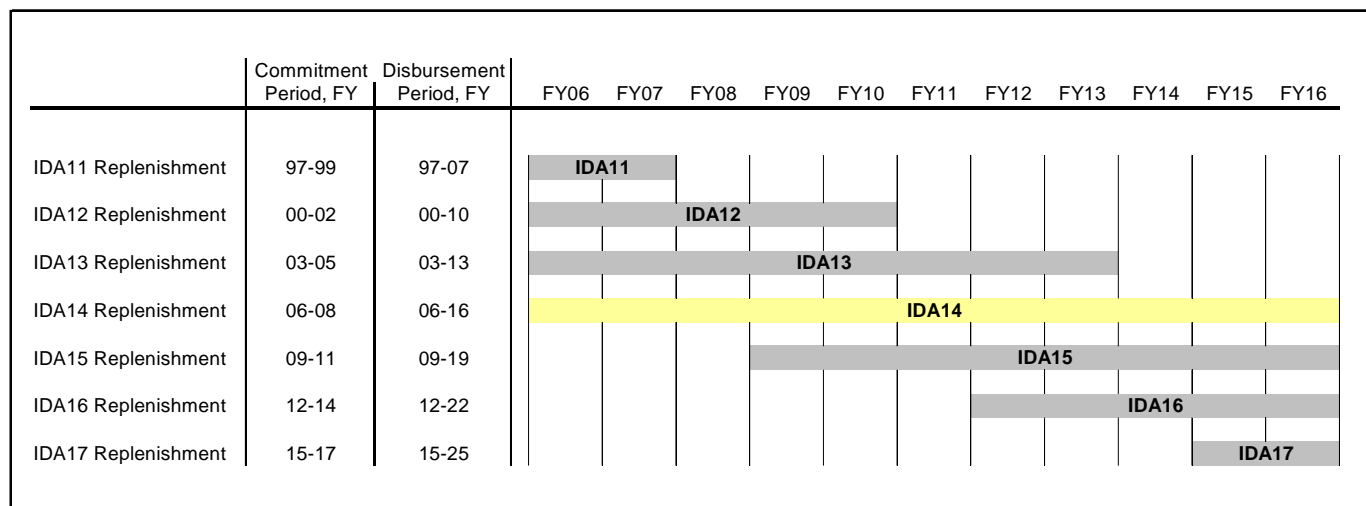
**Annex Table 2:
Advance Commitments of Reflows (FY07-16)
(USD million equivalents)**

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Total
IDA principal reflows, net of HIPC relief											
already committed (for IDA11 - IDA14 disbursements)	1,992	2,194	2,460	2,689	2,954	3,247	3,581	1,273	625	183	21,198
<i>in percent of total IDA principal reflows</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>33%</i>	<i>15%</i>	<i>4%</i>	
to be committed (for IDA15 + IDA16 disbursements)	-	-	-	-	-	-	-	2,623	3,580	4,181	10,384
TOTAL principal reflows	1,992	2,194	2,460	2,689	2,954	3,247	3,581	3,897	4,204	4,364	31,582
Principal reflows already committed											
for IDA11 disbursements	106	-	-	-	-	-	-	-	-	-	106
for IDA12 disbursements	1,886	1,232	413	129	-	-	-	-	-	-	3,660
for IDA13 disbursements	-	962	2,048	2,560	1,182	569	165	-	-	-	7,485
for IDA14 disbursements	-	-	-	-	1,773	2,678	3,415	1,273	625	183	9,947
TOTAL committed principal reflows	1,992	2,194	2,460	2,689	2,954	3,247	3,581	1,273	625	183	21,198

Note: The share of principal reflows already committed results from the profile of disbursements under IDA11 through IDA14 and the availability of other resources for disbursement. From FY14 onwards, when IDA14 disbursements near their conclusion, an increasing share of credit reflows would become available for expected disbursements under IDA15 and IDA16.

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Total
Principal reflows forgone due to GS proposal											
on already committed reflows (IDA11 - IDA14)	341	383	435	618	715	795	871	314	155	47	4,673
on reflows to be committed (IDA15 + IDA16)	-	-	-	-	-	-	-	647	889	1,065	2,600
Forgone principal reflows of IDA, FY07-16	341	383	435	618	715	795	871	960	1,044	1,111	7,273
Forgone principal reflows due to GS proposal, already committed											
for IDA11 disbursements	18	-	-	-	-	-	-	-	-	-	18
for IDA12 disbursements	323	215	73	30	-	-	-	-	-	-	641
for IDA13 disbursements	-	168	362	588	286	139	40	-	-	-	1,584
for IDA14 disbursements	-	-	-	-	429	656	831	314	155	47	2,431
Forgone principal reflows already committed	341	383	435	618	715	795	871	314	155	47	4,673
<i>plus: Forgone charges on reflows already committed</i>	<i>148</i>	<i>147</i>	<i>148</i>	<i>178</i>	<i>181</i>	<i>176</i>	<i>172</i>	<i>56</i>	<i>25</i>	<i>7</i>	1,238
TOTAL forgone reflows on IDA11-14 disbursements	489	530	583	795	896	971	1,042	370	181	54	5,911

**Annex Chart 1:
Time Profile of IDA Commitments and Disbursement s**



Annex Table 3:
Costs to IDA of Debt Relief to Potentially HIPC-eligible Countries
 (USD million equivalents)

Table 1: Debt relief costs for *likely* additions to HIPC ('ring-fenced' countries)

	Cost during IDA14 (FY07-08)	Cost FY07- FY44		
		Total	of which: expected HIPC costs	of which: expected costs under G8 proposal
Eritrea	8	399	163	235
Haiti	38	553	123	430
Kyrgyz Republic	26	635	144	491
Nepal	91	1,606	352	1,254
Total	164	3,192	782	2,410

Table 2: Debt relief costs for *possible* additions to HIPC (countries with currently incomplete data)

	Cost during IDA14 (FY07-08)	Cost FY07- FY44		
		Total	of which: expected HIPC costs	of which: expected costs under G8 proposal
Bangladesh	519	9,639	421	9,218
Bhutan	3	66	-	66
Sri Lanka	130	2,339	-	2,339
Tonga
Total	652	12,044	421	11,623

Note: Costs are based on DOD as of 12/31/2004 and implementation as of FY07

Annex Table 4:
Illustrative Donor Financing Commitments to IDA over the next four Decades
(USD billion equivalents)

	IDA14	IDA15	IDA16	IDA17	IDA18	IDA19	IDA20	IDA21	IDA22	IDA23	IDA24	IDA25	IDA26
	FY06-08	FY09-11	FY12-14	FY15-17	FY18-20	FY21-23	FY24-26	FY27-29	FY30-32	FY33-35	FY36-38	FY39-41	FY42-44
Regular donor contributions													
in IDA14 (net of supplemental, incentive, accelerated funds)	14.9												
in future replenishments:													
(a) held constant in <i>nominal</i> terms at IDA14 level		14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
(b) held constant in <i>real</i> terms at IDA14 level 1/		16.3	17.8	19.4	21.2	23.2	25.4	27.7	30.3	33.1	36.2	39.5	43.2
Pay-as-you-go obligations of donors													
Financing of existing HIPC costs	1.8	2.2	2.4	2.3	1.9	0.8	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Financing of G8 proposal (minimum expected costs) 2/	1.0	2.3	3.1	3.8	4.5	5.8	6.1	5.8	4.6	3.1	1.5	0.7	0.3
Replacement of forgone reflows from IDA grants 3/	0.0	0.0	0.1	0.5	1.1	1.7	2.6	3.9	5.2	6.7	8.3	10.0	11.6
Sub-total of pay-as-you-go obligations	2.8	4.4	5.7	6.6	7.4	8.3	9.1	9.7	9.8	9.7	9.8	10.7	11.9
Total required donor contributions													
(a) if regular contributions constant in <i>nominal</i> terms	17.7	19.3	20.6	21.5	22.3	23.2	24.0	24.6	24.7	24.6	24.7	25.6	26.8
(b) if regular contributions constant in <i>real</i> terms	17.7	20.7	23.5	26.1	28.7	31.5	34.5	37.4	40.1	42.8	46.0	50.2	55.1
1/ Based on regular donor contributions in IDA14, at the IDA14 foreign exchange reference rates, using a 3% p.a. USD deflator (equivalent to a 2% p.a. deflator in SDR terms)													
2/ Based on cut-off date (and at FX rates) of 12/31/2004 and implementation date of 07/01/2006; excludes costs of potential additional HIPCs													
3/ Assumed are 20% grants in IDA13, and 30% grants in IDA14 and subsequent replenishments. Costs reflect forgone principal reflows only (at IDA14 foreign exchange reference rates); forgone charges on IDA grants are assumed to be financed by grant recipients, as agreed for IDA14.													

Annex Table 5a:
Illustrative Donor Costs for G8 Proposal, Financing Options 1 and 2:
No Acceleration of Notes Encashment
 Using IDA13 Burden Shares (USD million equivalents)

Donors	IDA13 Basic Shares	Option 1: Up-front	Option 2: Over 4 IDA Replenishments			
		(encashments over 4 decades) All costs covered in IDA14	1st decade in IDA14	2nd decade in IDA15	3rd decade in IDA16	4th decade in IDA17
Australia	1.46%	619.41	130.19	257.15	205.56	26.51
Austria	0.78%	331.55	69.69	137.64	110.03	14.19
Belgium	1.55%	658.84	138.48	273.52	218.65	28.20
Brazil	0.61%	259.29	54.50	107.64	86.05	11.10
Canada	3.75%	1,593.98	335.03	661.74	528.98	68.22
Czech Republic	0.05%	21.25	4.47	8.82	7.05	0.91
Denmark	1.58%	671.59	141.16	278.81	222.88	28.74
Finland	0.60%	255.04	53.61	105.88	84.64	10.92
France	6.00%	2,550.36	536.05	1,058.78	846.38	109.15
Germany	10.30%	4,378.84	920.38	1,817.87	1,453.18	187.41
Greece	0.12%	49.18	10.34	20.42	16.32	2.10
Hungary	0.06%	25.25	5.31	10.48	8.38	1.08
Iceland	0.04%	17.00	3.57	7.06	5.64	0.73
Ireland	0.18%	76.51	16.08	31.76	25.39	3.27
Israel	0.10%	42.51	8.93	17.65	14.11	1.82
Italy	3.80%	1,615.23	339.50	670.56	536.04	69.13
Japan	16.00%	6,801.33	1,429.55	2,823.56	2,257.12	291.09
Korea	0.91%	386.80	81.30	160.58	128.37	16.55
Kuwait	0.14%	59.51	12.51	24.70	19.75	2.55
Luxembourg	0.10%	42.51	8.93	17.65	14.11	1.82
Mexico	0.05%	21.25	4.47	8.82	7.05	0.91
Netherlands	2.60%	1,105.16	232.29	458.80	366.76	47.30
New Zealand	0.12%	51.01	10.72	21.18	16.93	2.18
Norway	1.52%	646.09	135.80	268.22	214.42	27.65
Poland	0.03%	12.75	2.68	5.29	4.23	0.55
Portugal	0.20%	85.01	17.87	35.29	28.21	3.64
Russian Federation	0.08%	33.94	7.13	14.09	11.26	1.45
Saudi Arabia	0.39%	167.67	35.24	69.61	55.64	7.18
Singapore	0.14%	60.37	12.69	25.06	20.03	2.58
Slovak Republic	0.01%	5.61	1.18	2.33	1.86	0.24
South Africa	0.08%	34.00	7.15	14.12	11.29	1.46
Spain	1.80%	765.11	160.82	317.63	253.91	32.75
Sweden	2.62%	1,113.66	234.08	462.33	369.58	47.66
Switzerland	2.43%	1,032.90	217.10	428.81	342.78	44.21
Turkey	0.09%	38.26	8.04	15.88	12.70	1.64
United Kingdom	10.14%	4,310.90	906.10	1,789.66	1,430.64	184.50
United States	20.12%	8,551.17	1,797.35	3,550.01	2,837.83	365.98
Venezuela	<u>0.03%</u>	<u>12.75</u>	<u>2.68</u>	<u>5.29</u>	<u>4.23</u>	<u>0.55</u>
Sub-total	90.58%	38,503.56	8,092.97	15,984.71	12,777.98	1,647.90
Structural gap	<u>9.42%</u>	<u>4,002.45</u>	<u>841.26</u>	<u>1,661.61</u>	<u>1,328.27</u>	<u>171.30</u>
Total	<u>100.00%</u>	<u>42,506.00</u>	<u>8,934.23</u>	<u>17,646.32</u>	<u>14,106.25</u>	<u>1,819.20</u>

Annex Table 5b:
Illustrative Donor Costs for G8 Proposal, Financing Options 1 and 2:
Full Acceleration of Notes Encashment
 Using IDA13 Burden Shares (USD million equivalents)

Donors	IDA13 Basic Shares	Option 1: Up-front	Option 2: Over 4 IDA Replenishments			
		(immediate Note encashment)	(immediate Notes encashment)			
		All costs covered in IDA14	1st decade in IDA14	2nd decade in IDA15	3rd decade in IDA16	4th decade in IDA17
Australia	1.46%	357.57	87.76	173.34	138.57	17.87
Austria	0.78%	191.39	46.98	92.78	74.17	9.57
Belgium	1.55%	380.33	93.35	184.38	147.39	19.01
Brazil	0.61%	149.68	36.74	72.56	58.00	7.48
Canada	3.75%	920.16	225.85	446.08	356.59	45.99
Czech Republic	0.05%	12.27	3.01	5.95	4.75	0.61
Denmark	1.58%	387.70	95.16	187.95	150.24	19.38
Finland	0.60%	147.23	36.14	71.37	57.05	7.36
France	6.00%	1,472.26	361.35	713.72	570.54	73.58
Germany	10.30%	2,527.80	620.42	1,225.42	979.59	126.33
Greece	0.12%	28.39	6.97	13.76	11.00	1.42
Hungary	0.06%	14.58	3.58	7.07	5.65	0.73
Iceland	0.04%	9.82	2.41	4.76	3.80	0.49
Ireland	0.18%	44.17	10.84	21.41	17.12	2.21
Israel	0.10%	24.54	6.02	11.90	9.51	1.23
Italy	3.80%	932.43	228.86	452.02	361.34	46.60
Japan	16.00%	3,926.25	963.66	1,903.36	1,521.52	196.22
Korea	0.91%	223.29	54.81	108.25	86.53	11.16
Kuwait	0.14%	34.35	8.43	16.65	13.31	1.72
Luxembourg	0.10%	24.54	6.02	11.90	9.51	1.23
Mexico	0.05%	12.27	3.01	5.95	4.75	0.61
Netherlands	2.60%	637.98	156.59	309.28	247.23	31.88
New Zealand	0.12%	29.45	7.23	14.27	11.41	1.47
Norway	1.52%	372.97	91.54	180.81	144.54	18.64
Poland	0.03%	7.36	1.81	3.57	2.85	0.37
Portugal	0.20%	49.08	12.05	23.79	19.02	2.45
Russian Federation	0.08%	19.59	4.81	9.50	7.59	0.98
Saudi Arabia	0.39%	96.79	23.76	46.92	37.51	4.84
Singapore	0.14%	34.85	8.55	16.89	13.50	1.74
Slovak Republic	0.01%	3.24	0.79	1.57	1.26	0.16
South Africa	0.08%	19.63	4.82	9.52	7.61	0.98
Spain	1.80%	441.68	108.41	214.12	171.16	22.07
Sweden	2.62%	642.89	157.79	311.66	249.14	32.13
Switzerland	2.43%	596.27	146.35	289.06	231.07	29.80
Turkey	0.09%	22.08	5.42	10.71	8.56	1.10
United Kingdom	10.14%	2,488.58	610.80	1,206.41	964.39	124.37
United States	20.12%	4,936.39	1,211.59	2,393.05	1,912.98	246.71
Venezuela	<u>0.03%</u>	<u>7.36</u>	<u>1.81</u>	<u>3.57</u>	<u>2.85</u>	<u>0.37</u>
Sub-total	90.58%	22,227.21	5,455.45	10,775.25	8,613.60	1,110.85
Structural gap	<u>9.42%</u>	<u>2,310.52</u>	<u>567.09</u>	<u>1,120.09</u>	<u>895.38</u>	<u>115.47</u>
Total	<u>100.00%</u>	<u>24,537.73</u>	<u>6,022.54</u>	<u>11,895.34</u>	<u>9,508.99</u>	<u>1,226.32</u>

Annex Table 6:
Illustrative Donor Costs for G8 Proposal, Financing Option 3
 Using IDA13 Burden Shares
 (USD million equivalents)

Donors	IDA13 Basic Shares	Option 3: Over 4 Decades												
		IDA14 FY06-08	IDA15 FY09-11	IDA16 FY12-14	IDA17 FY15-17	IDA18 FY18-20	IDA19 FY21-23	IDA20 FY24-26	IDA21 FY27-29	IDA22 FY30-32	IDA23 FY33-35	IDA24 FY36-38	IDA25 FY39-41	IDA26 FY42-44
Australia	1.46%	14.9	33.1	45.8	55.3	65.0	84.9	88.2	84.3	67.1	44.5	22.1	10.1	4.0
Austria	0.78%	8.0	17.7	24.5	29.6	34.8	45.4	47.2	45.1	35.9	23.8	11.8	5.4	2.1
Belgium	1.55%	15.8	35.3	48.8	58.9	69.1	90.3	93.9	89.6	71.4	47.3	23.5	10.7	4.2
Brazil	0.61%	6.2	13.9	19.2	23.2	27.2	35.5	36.9	35.3	28.1	18.6	9.3	4.2	1.7
Canada	3.75%	38.2	85.3	118.0	142.4	167.3	218.5	227.1	216.9	172.7	114.5	57.0	25.9	10.2
Czech Republic	0.05%	0.5	1.1	1.6	1.9	2.2	2.9	3.0	2.9	2.3	1.5	0.8	0.3	0.1
Denmark	1.58%	16.1	35.9	49.7	60.0	70.5	92.1	95.7	91.4	72.8	48.2	24.0	10.9	4.3
Finland	0.60%	6.1	13.6	18.9	22.8	26.8	35.0	36.3	34.7	27.6	18.3	9.1	4.1	1.6
France	6.00%	61.2	136.5	188.8	227.9	267.6	349.6	363.3	347.0	276.4	183.2	91.1	41.4	16.4
Germany	10.30%	105.0	234.3	324.1	391.3	459.5	600.2	623.8	595.8	474.5	314.6	156.5	71.1	28.1
Greece	0.12%	1.2	2.6	3.6	4.4	5.2	6.7	7.0	6.7	5.3	3.5	1.8	0.8	0.3
Hungary	0.06%	0.6	1.4	1.9	2.3	2.6	3.5	3.6	3.4	2.7	1.8	0.9	0.4	0.2
Iceland	0.04%	0.4	0.9	1.3	1.5	1.8	2.3	2.4	2.3	1.8	1.2	0.6	0.3	0.1
Ireland	0.18%	1.8	4.1	5.7	6.8	8.0	10.5	10.9	10.4	8.3	5.5	2.7	1.2	0.5
Israel	0.10%	1.0	2.3	3.1	3.8	4.5	5.8	6.1	5.8	4.6	3.1	1.5	0.7	0.3
Italy	3.80%	38.7	86.4	119.5	144.3	169.5	221.4	230.1	219.8	175.0	116.0	57.7	26.2	10.4
Japan	16.00%	163.1	363.9	503.4	607.8	713.8	932.2	969.0	925.4	737.1	488.6	243.1	110.4	43.7
Korea	0.91%	9.3	20.7	28.6	34.6	40.6	53.0	55.1	52.6	41.9	27.8	13.8	6.3	2.5
Kuwait	0.14%	1.4	3.2	4.4	5.3	6.2	8.2	8.5	8.1	6.4	4.3	2.1	1.0	0.4
Luxembourg	0.10%	1.0	2.3	3.1	3.8	4.5	5.8	6.1	5.8	4.6	3.1	1.5	0.7	0.3
Mexico	0.05%	0.5	1.1	1.6	1.9	2.2	2.9	3.0	2.9	2.3	1.5	0.8	0.3	0.1
Netherlands	2.60%	26.5	59.1	81.8	98.8	116.0	151.5	157.4	150.4	119.8	79.4	39.5	17.9	7.1
New Zealand	0.12%	1.2	2.7	3.8	4.6	5.4	7.0	7.3	6.9	5.5	3.7	1.8	0.8	0.3
Norway	1.52%	15.5	34.6	47.8	57.7	67.8	88.6	92.0	87.9	70.0	46.4	23.1	10.5	4.1
Poland	0.03%	0.3	0.7	0.9	1.1	1.3	1.7	1.8	1.7	1.4	0.9	0.5	0.2	0.1
Portugal	0.20%	2.0	4.5	6.3	7.6	8.9	11.7	12.1	11.6	9.2	6.1	3.0	1.4	0.5
Russian Federation	0.08%	0.8	1.8	2.5	3.0	3.6	4.7	4.8	4.6	3.7	2.4	1.2	0.6	0.2
Saudi Arabia	0.39%	4.0	9.0	12.4	15.0	17.6	23.0	23.9	22.8	18.2	12.0	6.0	2.7	1.1
Singapore	0.14%	1.4	3.2	4.5	5.4	6.3	8.3	8.6	8.2	6.5	4.3	2.2	1.0	0.4
Slovak Republic	0.01%	0.1	0.3	0.4	0.5	0.6	0.8	0.8	0.8	0.6	0.4	0.2	0.1	0.0
South Africa	0.08%	0.8	1.8	2.5	3.0	3.6	4.7	4.8	4.6	3.7	2.4	1.2	0.6	0.2
Spain	1.80%	18.3	40.9	56.6	68.4	80.3	104.9	109.0	104.1	82.9	55.0	27.3	12.4	4.9
Sweden	2.62%	26.7	59.6	82.4	99.5	116.9	152.6	158.7	151.5	120.7	80.0	39.8	18.1	7.2
Switzerland	2.43%	24.8	55.3	76.4	92.3	108.4	141.6	147.2	140.5	111.9	74.2	36.9	16.8	6.6
Turkey	0.09%	0.9	2.0	2.8	3.4	4.0	5.2	5.5	5.2	4.1	2.7	1.4	0.6	0.2
United Kingdom	10.14%	103.4	230.7	319.1	385.2	452.4	590.9	614.2	586.5	467.2	309.7	154.1	70.0	27.7
United States	20.12%	205.0	457.6	632.9	764.1	897.4	1,172.1	1,218.3	1,163.5	926.7	614.3	305.6	138.8	54.9
Venezuela	0.03%	0.3	0.7	0.9	1.1	1.3	1.7	1.8	1.7	1.4	0.9	0.5	0.2	0.1
Sub-total	90.58%	923.3	2,060.3	2,849.8	3,440.6	4,040.7	5,277.4	5,485.5	5,238.8	4,172.6	2,766.1	1,376.0	625.2	247.2
Structural gap	9.42%	96.0	214.2	296.2	357.6	420.0	548.6	570.2	544.6	433.7	287.5	143.0	65.0	25.7
Total	100.00%	1,019.3	2,274.5	3,146.0	3,798.2	4,460.8	5,826.0	6,055.7	5,783.3	4,606.3	3,053.6	1,519.1	690.2	272.9

Annex Table 7a:

Illustrative Total Donor Contributions, IDA14-IDA17, Financing Option 2: No Acceleration of Notes Encashment
Regular Contributions Kept Stable in Real Terms; Using IDA13 Burden Shares
(USD million equivalents)

Option 2: Over 4 IDA Replenishments - With encasements of Promissory Notes over 4 decades																						
Donors	IDA13	IDA14						IDA15					IDA16					IDA17				
	Shares 1/	Regular 2/	GF	HIPC	G8	Grants	Total	Regular	HIPC	G8	Grants	Total	Regular	HIPC	G8	Grants	Total	Regular	HIPC	G8	Grants	Total
Australia	1.46%	267.12	10.04	26.23	130.19	0.00	423.54	291.89	31.36	257.15	0.00	580.39	318.95	35.38	205.56	1.38	561.27	348.53	34.14	26.51	7.23	416.40
Austria	0.78%	285.41	5.37	14.04	69.69	0.00	369.14	311.88	16.79	137.64	0.00	466.31	340.80	18.94	110.03	0.74	470.50	372.40	18.27	14.19	3.87	408.73
Barbados		0.37	0.01					0.40					0.44					0.48				
Belgium	1.55%	283.58	10.66	27.90	138.48	0.00	449.97	309.88	33.36	273.52	0.00	616.76	338.62	37.64	218.65	1.46	596.36	370.01	36.31	28.20	7.69	442.21
Brazil	0.61%	111.59	4.20	10.98	54.50	0.00	177.07	121.94	13.13	107.64	0.00	242.71	133.25	14.81	86.05	0.58	234.68	145.60	14.29	11.10	3.03	174.02
Canada	3.75%	686.09	25.80	67.50	335.03	0.00	1,088.62	749.70	80.71	661.74	0.00	1,492.15	819.22	91.05	528.98	3.54	1,442.80	895.19	87.85	68.22	18.60	1,069.86
Czech Republic	0.05%	9.15	0.34	0.90	4.47	0.00	14.51	10.00	1.08	8.82	0.00	19.90	10.92	1.21	7.05	0.05	19.24	11.94	1.17	0.91	0.25	14.26
Denmark	1.58%	222.03	10.87	28.44	141.16	0.00	391.63	242.62	34.00	278.81	0.00	555.43	265.11	38.36	222.88	1.49	527.85	289.70	37.01	28.74	7.84	363.29
Finland	0.60%	109.78	4.13	10.80	53.61	0.00	174.18	119.96	12.91	105.88	0.00	238.75	131.08	14.57	84.64	0.57	230.85	143.23	14.06	10.92	2.98	171.18
France	6.00%	1,317.29	41.27	108.00	536.05	0.00	1,961.34	1,439.43	129.13	1,058.78	0.00	2,627.34	1,572.91	145.68	846.38	5.66	2,570.63	1,718.76	140.56	109.15	29.76	1,998.23
Germany	10.30%	1,456.83	70.86	185.43	920.38	0.00	2,562.64	1,591.92	221.71	1,817.87	0.00	3,631.50	1,739.53	250.13	1,453.18	9.72	3,452.57	1,900.83	241.34	187.41	51.10	2,380.68
Greece	0.12%	21.95	0.83	2.08	10.34	0.00	34.37	23.99	2.49	20.42	0.00	46.90	26.22	2.81	16.32	0.11	45.45	28.65	2.71	2.10	0.57	34.04
Hungary	0.06%	10.98	0.41	1.07	5.31	0.00	17.35	12.00	1.28	10.48	0.00	23.76	13.11	1.44	8.38	0.06	22.99	14.32	1.39	1.08	0.29	17.09
Iceland	0.04%	7.32	0.28	0.72	3.57	0.00	11.61	8.00	0.86	7.06	0.00	15.92	8.74	0.97	5.64	0.04	15.39	9.55	0.94	0.73	0.20	11.41
Ireland	0.18%	68.49	1.24	3.24	16.08	0.00	87.81	74.84	3.87	31.76	0.00	110.47	81.78	4.37	25.39	0.17	111.71	89.36	4.22	3.27	0.89	97.74
Israel	0.10%	13.07	0.69	1.80	8.93	0.00	23.80	14.28	2.15	17.65	0.00	34.08	15.60	2.43	14.11	0.09	32.23	17.05	2.34	1.82	0.50	21.71
Italy	3.80%	695.23	26.14	68.40	339.50	0.00	1,103.13	759.70	81.78	670.56	0.00	1,512.04	830.15	92.27	536.04	3.59	1,462.04	907.12	89.02	69.13	18.85	1,084.12
Japan	16.00%	2,149.68	110.07	288.02	1,429.55	0.00	3,867.25	2,349.02	344.37	2,823.56	0.00	5,516.95	2,568.83	388.51	2,257.12	15.10	5,227.57	2,804.85	374.85	291.09	79.37	3,550.16
Korea	0.91%	166.49	6.26	16.38	81.30	0.00	264.17	181.93	19.58	160.58	0.00	362.09	198.80	22.10	128.37	0.86	350.12	217.23	21.32	16.55	4.51	259.62
Kuwait	0.14%	25.61	0.96	2.52	12.51	0.00	40.64	27.99	3.01	24.70	0.00	55.71	30.58	3.40	19.75	0.13	53.86	33.42	3.28	2.55	0.69	39.94
Luxembourg	0.10%	32.42	0.69	1.80	8.93	0.00	43.15	35.42	2.15	17.65	0.00	55.22	38.71	2.43	14.11	0.09	55.33	42.30	2.34	1.82	0.50	46.95
Mexico	0.05%	9.15	0.34	0.90	4.47	0.00	14.51	10.00	1.08	8.82	0.00	19.90	10.92	1.21	7.05	0.05	19.24	11.94	1.17	0.91	0.25	14.26
Netherlands	2.60%	512.28	17.89	46.80	232.29	0.00	791.37	559.78	55.96	458.80	0.00	1,074.54	611.69	63.13	366.76	2.45	1,044.03	668.41	60.91	47.30	12.90	789.51
New Zealand	0.12%	21.95	0.83	2.16	10.72	0.00	34.84	23.99	2.58	21.18	0.00	47.75	26.22	2.91	16.93	0.11	46.17	28.65	2.81	2.18	0.60	34.24
Norway	1.52%	307.49	10.46	27.36	135.80	0.00	470.65	336.01	32.71	268.22	0.00	636.94	367.16	36.91	214.42	1.43	619.92	401.21	35.61	27.65	7.54	472.01
Poland	0.03%	5.49	0.21	0.54	2.68	0.00	8.71	6.00	0.65	5.29	0.00	11.94	6.55	0.73	4.23	0.03	11.54	7.16	0.70	0.55	0.15	8.56
Portugal	0.20%	36.59	1.38	3.60	17.87	0.00	58.06	39.98	4.30	35.29	0.00	79.58	43.69	4.86	28.21	0.19	76.95	47.74	4.69	3.64	0.99	57.06
Russian Federation	0.08%	24.88	0.55	1.44	7.13	0.00	33.45	27.19	1.72	14.09	0.00	43.00	29.71	1.94	11.26	0.08	42.99	32.47	1.87	1.45	0.40	36.18
Saudi Arabia	0.39%	40.70	2.68	7.10	35.24	0.00	83.04	44.47	8.49	69.61	0.00	122.57	48.59	9.58	55.64	0.37	114.19	53.10	9.24	7.18	1.96	71.47
Singapore	0.14%	25.61	0.96	2.56	12.69	0.00	40.86	27.99	3.06	25.06	0.00	56.11	30.58	3.45	20.03	0.13	54.20	33.42	3.33	2.58	0.70	40.04
Slovak Republic	0.01%	2.51	0.07	0.24	1.18	0.00	3.93	2.74	0.28	2.33	0.00	5.36	3.00	0.32	1.86	0.01	5.19	3.28	0.31	0.24	0.07	3.89
Slovenia		5.49	0.00					6.00					6.55					7.16				
South Africa	0.08%	14.64	0.55	1.44	7.15	0.00	23.22	15.99	1.72	14.12	0.00	31.83	17.48	1.94	11.29	0.08	30.78	19.10	1.87	1.46	0.40	22.82
Spain	1.80%	402.50	12.38	32.40	160.82	0.00	595.72	439.83	38.74	317.63	0.00	796.20	480.61	43.71	253.91	1.70	779.93	525.18	42.17	32.75	8.93	609.02
Sweden	2.62%	542.27	18.02	47.16	234.08	0.00	823.51	592.56	56.39	462.33	0.00	1,111.28	647.50	63.62	369.58	2.47	1,083.18	707.54	61.38	47.66	13.00	829.58
Switzerland	2.43%	413.91	16.72	43.74	217.10	0.00	674.75	452.29	52.30	428.81	0.00	933.39	494.23	39.00	342.78	2.29	898.31	540.06	56.93	44.21	12.05	653.25
Turkey	0.09%	11.04	0.62	1.62	8.04	0.00	20.70	12.06	1.94	15.88	0.00	29.88	13.18	2.19	12.70	0.08	28.14	14.40	2.11	1.64	0.45	18.59
United Kingdom	10.14%	2,220.40	69.76	182.55	906.10	0.00	3,309.05	2,426.29	218.27	1,789.66	0.00	4,434.23	2,651.27	246.25	1,430.64	9.57	4,337.74	2,897.12	237.59	184.50	50.31	3,369.52
United States	20.12%	2,369.99	138.41	362.12	1,797.35	0.00	4,529.45	2,589.75	432.96	3,550.01	0.00	6,572.72	2,829.89	488.47	2,837.83	18.99	6,175.18	3,092.30	471.29	365.98	99.79	4,029.36
Venezuela	0.03%	5.49	0.21	0.54	2.68	0.00	8.71	6.00	0.65	5.29	0.00	11.94	6.55	0.73	4.23	0.03	11.54	7.16	0.70	0.55	0.15	8.56
Sub-total	90.58%	14,912.85	623.13	1,630.51	8,092.97	0.00	25,259.46	16,295.68	1,949.52	15,984.71	0.00	34,229.90	17,806.72	2,199.44	12,777.98	85.51	32,869.65	19,457.89	2,122.11	1,647.90	449.33	23,677.23
IDA13 structural gap	9.42%	0.00	64.43	169.49	841.26	0.00	1,075.19	0.00	202.65	1,661.61	0.00	1,864.26	0.00	228.63	1,328.27	8.89	1,565.79	0.00	220.59	171.30	46.71	438.60
Total	100.00%	14,912.85	687.56	1,800.00	8,934.23	0.00	26,334.65	16,295.68	2,152.17	17,646.32	0.00	36,094.16	17,806.72	2,428.07	14,106.25	94.40	34,435.44	19,457.89	2,342.70	1,819.20	496.04	24,115.83

1/ Regular donor contributions are based on actual IDA14 burden shares and increase by 3% per year (constant in real terms); all other costs are based on IDA13 burden shares, including IDA13 grant financing, HIPC costs, G8 costs, and forgone IDA grants principal.

2/ Excludes IDA14 supplemental and incentive contributions and funds from accelerated encashments; also includes the donor financing gap in IDA14.

Annex Table 7b:

Illustrative Total Donor Contributions, IDA14-IDA17, Financing Option 2: Full Acceleration of Notes Encashment
Regular Contributions Kept Stable in Real Terms; Using IDA13 Burden Shares
(USD million equivalents)

Option 2: Over 4 IDA Replenishments - With accelerated encashments of Promissory Notes in full upon receipt by IDA																						
Donors	IDA13	IDA14						IDA15					IDA16					IDA17				
	Shares 1/	Regular 2/	GF	HIPC	G8	Grants	Total	Regular	HIPC	G8	Grants	Total	Regular	HIPC	G8	Grants	Total	Regular	HIPC	G8	Grants	Total
Australia	1.46%	267.12	10.04	26.23	87.76	0.00	381.11	291.89	31.36	173.34	0.00	496.59	318.95	35.38	138.57	1.38	494.28	348.53	34.14	17.87	7.23	407.76
Austria	0.78%	285.41	5.37	14.04	46.98	0.00	346.43	311.88	16.79	92.78	0.00	421.45	340.80	18.94	74.17	0.74	434.64	372.40	18.27	9.57	3.87	404.11
Barbados		0.37	0.01					0.40					0.44					0.48				
Belgium	1.55%	283.58	10.66	27.90	93.35	0.00	404.83	309.88	33.36	184.38	0.00	527.62	338.62	37.64	147.39	1.46	525.10	370.01	36.31	19.01	7.69	433.02
Brazil	0.61%	111.59	4.20	10.98	36.74	0.00	159.31	121.94	13.13	72.56	0.00	207.63	133.25	14.81	58.00	0.58	206.64	145.60	14.29	7.48	3.03	170.40
Canada	3.75%	686.09	25.80	67.50	225.85	0.00	979.43	749.70	80.71	446.08	0.00	1,276.49	819.22	91.05	356.59	3.54	1,270.40	895.19	87.85	45.99	18.60	1,047.63
Czech Republic	0.05%	9.15	0.34	0.90	3.01	0.00	13.06	10.00	1.08	5.95	0.00	17.02	10.92	1.21	4.75	0.05	16.94	11.94	1.17	0.61	0.25	13.97
Denmark	1.58%	222.03	10.87	28.44	95.16	0.00	345.62	242.62	34.00	187.95	0.00	464.57	265.11	38.36	150.24	1.49	455.21	289.70	37.01	19.38	7.84	353.92
Finland	0.60%	109.78	4.13	10.80	36.14	0.00	156.71	119.96	12.91	71.37	0.00	204.24	131.08	14.57	57.05	0.57	203.27	143.23	14.06	7.36	2.98	167.62
France	6.00%	1,317.29	41.27	108.00	361.35	0.00	1,786.64	1,439.43	129.13	713.72	0.00	2,282.28	1,572.91	145.68	570.54	5.66	2,294.79	1,718.76	140.56	73.58	29.76	1,962.66
Germany	10.30%	1,456.83	70.86	185.43	620.42	0.00	2,262.68	1,591.92	221.71	1,225.42	0.00	3,039.05	1,739.53	250.13	979.59	9.72	2,978.97	1,900.83	241.34	126.33	51.10	2,319.60
Greece	0.12%	21.95	0.83	2.08	6.97	0.00	31.01	23.99	2.49	13.76	0.00	40.24	26.22	2.81	11.00	0.11	40.14	28.65	2.71	1.42	0.57	33.35
Hungary	0.06%	10.98	0.41	1.07	3.58	0.00	15.62	12.00	1.28	7.07	0.00	20.34	13.11	1.44	5.65	0.06	20.25	14.32	1.39	0.73	0.29	16.74
Iceland	0.04%	7.32	0.28	0.72	2.41	0.00	10.45	8.00	0.86	4.76	0.00	13.62	8.74	0.97	3.80	0.04	13.55	9.55	0.94	0.49	0.20	11.17
Ireland	0.18%	68.49	1.24	3.24	10.84	0.00	82.57	74.84	3.87	21.41	0.00	100.12	81.78	4.37	17.12	0.17	103.43	89.36	4.22	2.21	0.89	96.68
Israel	0.10%	13.07	0.69	1.80	6.02	0.00	20.89	14.28	2.15	11.90	0.00	28.33	15.60	2.43	9.51	0.09	27.64	17.05	2.34	1.23	0.50	21.12
Italy	3.80%	695.23	26.14	68.40	228.86	0.00	992.49	759.70	81.78	452.02	0.00	1,293.51	830.15	92.27	361.34	3.59	1,287.34	907.12	89.02	46.60	18.85	1,061.59
Japan	16.00%	2,149.68	110.07	288.02	963.66	0.00	3,401.36	2,349.02	344.37	1,903.36	0.00	4,596.74	2,566.83	388.51	1,521.52	15.10	4,491.97	2,804.85	374.85	196.22	79.37	3,455.29
Korea	0.91%	166.49	6.26	16.38	54.81	0.00	237.68	181.93	19.58	108.25	0.00	309.76	198.80	22.10	86.53	0.86	308.28	217.23	21.32	11.16	4.51	254.22
Kuwait	0.14%	25.61	0.96	2.52	8.43	0.00	36.57	27.99	3.01	16.65	0.00	47.66	30.58	3.40	13.31	0.13	47.43	33.42	3.28	1.72	0.69	39.11
Luxembourg	0.10%	32.42	0.69	1.80	6.02	0.00	40.24	35.42	2.15	11.90	0.00	49.47	38.71	2.43	9.51	0.09	50.74	42.30	2.34	1.23	0.50	46.36
Mexico	0.05%	9.15	0.34	0.90	3.01	0.00	13.06	10.00	1.08	5.95	0.00	17.02	10.92	1.21	4.75	0.05	16.94	11.94	1.17	0.61	0.25	13.97
Netherlands	2.60%	512.28	17.89	46.80	156.59	0.00	715.66	559.78	55.96	309.28	0.00	925.01	611.69	63.13	247.23	2.45	924.50	668.41	60.91	31.88	12.90	774.10
New Zealand	0.12%	21.95	0.83	2.16	7.23	0.00	31.34	23.99	2.58	14.27	0.00	40.85	26.22	2.91	11.41	0.11	40.65	28.65	2.81	1.47	0.60	33.52
Norway	1.52%	307.49	10.46	27.36	91.54	0.00	426.40	336.01	32.71	180.81	0.00	549.53	367.16	36.91	144.54	1.43	550.04	401.21	35.61	18.64	7.54	463.00
Poland	0.03%	5.49	0.21	0.54	1.81	0.00	7.84	6.00	0.65	3.57	0.00	10.21	6.55	0.73	2.85	0.03	10.16	7.16	0.70	0.37	0.15	8.38
Portugal	0.20%	36.59	1.38	3.60	12.05	0.00	52.24	39.98	4.30	23.79	0.00	68.08	43.69	4.86	19.02	0.19	67.75	47.74	4.69	2.45	0.99	55.87
Russian Federation	0.08%	24.88	0.55	1.44	4.81	0.00	31.13	27.19	1.72	9.50	0.00	38.40	29.71	1.94	7.59	0.08	39.32	32.47	1.87	0.98	0.40	35.71
Saudi Arabia	0.39%	40.70	2.68	7.10	23.76	0.00	71.55	44.47	8.49	46.92	0.00	99.88	48.59	9.58	37.51	0.37	96.05	53.10	9.24	4.84	1.96	69.13
Singapore	0.14%	25.61	0.96	2.56	8.55	0.00	36.72	27.99	3.06	16.89	0.00	47.94	30.58	3.45	13.50	0.13	47.67	33.42	3.33	1.74	0.70	39.19
Slovak Republic	0.01%	2.51	0.07	0.24	0.79	0.00	3.54	2.74	0.28	1.57	0.00	4.60	3.00	0.32	1.26	0.01	4.59	3.28	0.31	0.16	0.07	3.81
Slovenia		5.49	0.00					6.00					6.55					7.16				
South Africa	0.08%	14.64	0.55	1.44	4.82	0.00	20.89	15.99	1.72	9.52	0.00	27.23	17.48	1.94	7.61	0.08	27.10	19.10	1.87	0.98	0.40	22.35
Spain	1.80%	402.50	12.38	32.40	108.41	0.00	543.31	439.83	38.74	214.12	0.00	692.68	480.61	43.71	171.16	1.70	697.18	525.18	42.17	22.07	8.93	598.35
Sweden	2.62%	542.27	18.02	47.16	157.79	0.00	747.22	592.56	56.39	311.66	0.00	960.60	647.50	63.62	249.14	2.47	962.73	707.54	61.38	32.13	13.00	814.05
Switzerland	2.43%	413.91	16.72	43.74	146.35	0.00	604.00	452.29	52.30	289.06	0.00	793.64	494.23	59.00	231.07	2.29	786.59	540.06	56.93	29.80	12.05	638.84
Turkey	0.09%	11.04	0.62	1.62	5.42	0.00	18.08	12.06	1.94	10.71	0.00	24.70	13.18	2.19	8.56	0.08	24.01	14.40	2.11	1.10	0.45	18.06
United Kingdom	10.14%	2,220.40	69.76	182.55	610.80	0.00	3,013.75	2,426.29	218.27	1,206.41	0.00	3,850.97	2,651.27	246.25	964.39	9.57	3,871.49	2,897.12	237.59	124.37	50.31	3,309.39
United States	20.12%	2,369.99	138.41	362.12	1,211.59	0.00	3,943.69	2,589.75	432.96	2,393.05	0.00	5,415.76	2,829.89	488.47	1,912.98	18.99	5,250.32	3,092.30	471.29	246.71	99.79	3,910.09
Venezuela	0.03%	5.49	0.21	0.54	1.81	0.00	7.84	6.00	0.65	3.57	0.00	10.21	6.55	0.73	2.85	0.03	10.16	7.16	0.70	0.37	0.15	8.38
Sub-total	90.58%	14,912.85	623.13	1,630.51	5,455.45	0.00	22,621.94	16,295.68	1,949.52	10,775.25	0.00	29,020.44	17,806.72	2,199.44	8,613.60	85.51	28,705.27	19,457.89	2,122.11	1,110.85	449.33	23,140.18
IDA13 structural gap	9.42%	0.00	64.43	169.49	567.09	0.00	801.02	0.00	202.65	1,120.09	0.00	1,322.74	0.00	228.63	895.38	8.89	1,132.90	0.00	220.59	115.47	46.71	382.77
Total	100.00%	14,912.85	687.56	1,800.00	6,022.54	0.00	23,422.96	16,295.68	2,152.17	11,895.34	0.00	30,343.18	17,806.72	2,428.07	9,508.99	94.40	29,838.18	19,457.89	2,342.70	1,226.32	496.04	23,522.95

1/ Regular donor contributions are based on actual IDA14 burden shares and increase by 3% per year (constant in real terms); all other costs are based on IDA13 burden shares, including IDA13 grant financing, HIPC costs, G8 costs, and forgone IDA grants principal.

2/ Excludes IDA14 supplemental and incentive contributions and funds from accelerated encashments; also includes the donor financing gap in IDA14.