

INTERNATIONAL MONETARY FUND

**The Multilateral Debt Relief Initiative: A First Assessment of Eligible Countries—
Supplemental Information**

Prepared by the Policy Development and Review Department

(In consultation with other departments)

Approved by Mark Allen

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1. **This supplement summarizes new information available to staff since the issuance of *The Multilateral Debt Relief Initiative: A First Assessment of Eligible Countries* (December 8, 2005).** It focuses on the six members (Ethiopia, Madagascar, Mauritania, Nicaragua, Rwanda, and Senegal) for which staff recommends that remedial actions be taken before the Board determines whether they qualify for debt relief from the Fund under the Multilateral Debt Relief Initiative (MDRI).*
2. Recent information, which is detailed below country by country, shows that the authorities in these countries are already working on remedial measures.
 - **In Nicaragua and Senegal**, the authorities expressed their commitment to implement the remedial measures that could allow both members to qualify for MDRI relief in the coming weeks.
 - **In Ethiopia, Madagascar, and Rwanda**, the authorities have started taking remedial actions that could allow their countries to qualify for MDRI relief in the coming months.
 - **In Mauritania**, there is progress on the resolution of pending data issues but **past slippages** in the macroeconomic and public expenditure management areas **may nonetheless take some more time to correct**.

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

3. In **Nicaragua**, the authorities have completed all prior actions for the program. As such, it is expected that a staff report recommending completion of the pending seventh, eighth, and ninth reviews under the PRGF arrangement and for seeking an extension of the arrangement through December 2006 will be circulated shortly for consideration by the Board. Completion of these reviews would satisfy the remedial measure for Nicaragua to qualify for MDRI debt relief. At the same meeting, the Executive Board would also discuss the 2005 Article IV Consultation report for Nicaragua.
4. The mission that visited **Senegal** during December 9-16 completed the discussions for the third and fourth reviews under the PRGF arrangement and reached understandings, ad referendum, on a Memorandum of Economic and Financial Policies (MEFP) for 2006. The MEFP highlights the authorities' commitment to take the remedial actions required to meet the MDRI's criteria regarding macroeconomic performance and public expenditure management systems. Staff is seeking clarification from the authorities on data issues and plans to bring Senegal's MDRI qualification to the Board soon, together with the third and fourth reviews.
5. Discussions with **Ethiopia** on policies to safeguard macroeconomic stability, including steps to alleviate pressures on the balance of payments, are now taking place in Washington. It is envisaged that the Article IV consultation will be concluded following further discussions with staff early in 2006. If these confirm that macroeconomic stability is being safeguarded, staff would be able to conclude that the requirement of six months of satisfactory macroeconomic performance has been met. The Executive Board would then have the opportunity to reassess Ethiopia's qualification for debt relief at the time of the conclusion of the Article IV consultation.
6. An IMF staff mission visited **Madagascar** during December 10–16, 2005, to continue discussions on a possible three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Concerning macroeconomic performance, the mission found good progress toward implementing the remedial actions identified in the staff's assessment of qualification for the MDRI. In particular, available information pointed to strong tax revenue performance so far during the fourth quarter of 2005; and progress was made toward agreement on a 2006 budget consistent with the authorities' macroeconomic objectives. As a result, the staff expects to undertake a new macroeconomic assessment within the context of a staff visit in early 2006 and the Executive Board's consideration of Madagascar's qualification for debt relief under the MDRI could take place thereafter.
7. **Rwanda** is expected to meet the criterion on macroeconomic performance under the MDRI upon completion of the sixth review under the PRGF arrangement. Among the outstanding issues for this review, progress has been made with the completion of the audit of Prime Holdings. The measures required for the observance of the related end-September performance criterion for the delayed sixth review will be implemented when this audit is published, along with a business plan. Further information on other aspects of policy performance relevant to the sixth review is not yet available.

8. During last November staff visit, the authorities cooperated fully with staff to solve the data issues that had plagued **Mauritania's** relations with the Fund since January 2004 and provided staff with data that affect most sectors and cover many years. In a recent letter to the Managing Director, the Head of State acknowledged that the communication of inaccurate data to the Fund had undermined the conduct of economic policies, regretted the consequences for the dialogue with the Fund, assured that Mauritania is committed to full transparency, sound macroeconomic management and structural reform. Progress has been made on the reassessment of economic and financial data.