

EBD/08/7

January 17, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Notification of GAO Review—Financing and Implementation of MDRI**

Attached is a memorandum from the Managing Director notifying Executive Directors of the U.S. General Accounting Office (GAO) ongoing review of the financing and implementation of the Multilateral Debt Relief Initiative. This notification is being circulated to Executive Directors to invite their comments prior to the Managing Director's taking a decision to approve the GAO's request for cooperation.

Comments on the notification should be communicated to the Secretary **by noon on Wednesday, January 30, 2008**. With the Managing Director's approval, the review will be carried out in accordance with the procedures established in Decision No. 12424-(01/13). The published report will be circulated to the Executive Board for information.

Questions may be referred to Mr. Thomas, PDR (ext. 34317).

Att: (1)

Other Distribution:  
Heads of Departments





# *Office Memorandum*

To: The Members of the Executive Board

January 16, 2008

From: The Managing Director

A handwritten signature, likely of the Managing Director, is written in blue ink next to the "From:" line.

Subject: **Notification of GAO Review of the Financing and Implementation of MDRI**

As noted in the attached memorandum from Ms. Lundsager, at the request of, inter alia, the House Committee on Financial Services, the U.S. Government Accountability Office (GAO) is conducting a review of the financing and implementation of the Multilateral Debt Relief Initiative. The review will cover the Fund, the IBRD, AfDB, and IDB and examine financial costs, policy conditionality, and the implications for new borrowing and non-participating creditors associated with MDRI/HIPC. Ms. Lundsager has been contacted in conjunction with the review to assist in identifying and notifying appropriate IMF officials, and arranging any meetings deemed necessary to carry out the review. The terms of reference of the review are attached to Ms. Lundsager's memorandum.

Ms. Lundsager's memorandum indicates that the inquiry will follow the principles set out in the Decision on Procedures for Cooperation with Investigations on Fund Activities by Auditing Agencies of Members (Decision 12424-01/13). The GAO will give management and staff an opportunity to review their report in draft, provide comments for inclusion with the final report, and ascertain that no confidential information is disclosed and that factual information is accurate. Once the report is published, it will be circulated promptly to the Executive Board, together with an assessment of the staff resources used by the Fund in the inquiry.

According to the procedures on cooperation, Executive Directors are to be notified of all requests at least two weeks before the commencement of any cooperation with the agency and should have an opportunity to comment on all aspects of the notification. My intention is to approve the GAO's request for cooperation, taking into account any comments that Executive Directors may provide on the proposed review by January 30, 2008.



# Office Memorandum

To: Mr. Allen

January 7, 2008

From: Meg Lundsager  
U.S. Executive Director

Subject: **Notification of GAO Review – Financing and Implementation of MDRI**

At the request of, *inter alia*, the House Committee on Financial Services, the U.S. Government Accountability Office (GAO) is conducting a review of the financing and implementation of the Multilateral Debt Relief Initiative. The scope of work will include the Fund, IBRD, AFDB, and IDB, and the review will examine financial costs, policy conditionality, and the implications for new borrowing and non-participating creditors associated with MDRI/HIPC. In conjunction with this review, an inquiry has been made to my office for assistance in identifying and notifying appropriate IMF officials, and arranging any meetings deemed necessary to carry out this review.

In line with the Executive Board Decision on Procedures for Cooperation with Investigations on Fund Activities by Auditing Agencies of Members (Decision 12424 - (01/13), attached are the Terms of Reference for the inquiry as provided by GAO. In this context, the GAO has confirmed to me that:

- Any document provided by Fund management and staff and designated by the IMF as “confidential”, or any other confidential information, including views expressed by Fund management and staff in discussing confidential documents, shall be protected. GAO policy and applicable statutory and regulatory requirements obligate the GAO to give the information the same level of confidentiality as the IMF.
- In cases where the GAO receives any document provided by Fund management and staff and designated by the IMF as “confidential”, or where Fund management or staff provided other confidential information, including views expressed in discussing confidential documents, Fund management and staff will have two opportunities to review relevant sections of the draft GAO report. At the first stage, Fund management and staff will check relevant sections of the report for confidential information. At this stage, Fund management and staff can also identify factual corrections. The GAO will delete any confidential information and undertake to correct factual mistakes before the draft report is circulated for official comment.
- Fund management and staff will have a second opportunity to review the draft GAO report when it is circulated for official comment. The GAO will reflect the views of

IMF management and staff by, inter alia, including in full the final written official comments of the IMF in the published version of the report.

We understand that if Fund management concludes that the views of the Fund have not been adequately reflected in the published report, Fund management may decide to communicate those views directly to the recipients of the report.

If you have any questions or concerns during the course of this review please contact Michael Kaplan in my office.

Attachment: GAO Terms of Reference

cc: The Managing Director  
The Deputy Managing Directors  
Heads of Departments: LEG  
Mr. Kincaid  
Mr. Plant

Contributor:

Mr. Kaplan



GAO

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United States General Accounting Office  
Washington, DC 20548

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GAO REVIEW OF THE FINANCING AND IMPLEMENTATION  
OF THE MULTILATERAL DEBT RELIEF INITIATIVE  
JOB CODE 320558  
TERMS OF REFERENCE  
December 2007

This document outlines our current approach. Specifics are subject to change in order to meet the needs of congressional requesters and address other issues that may arise.

Congressional Requesters

This review was requested by:

- Representative Barney Frank, Chairman; Representative Spencer Bachus, Ranking Member; Representative Maxine Waters, Member; House Committee on Financial Services
- Representative Luis Gutierrez, Chairman, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, House Committee on Financial Services
- Representative Donald Payne, Chairman, Subcommittee on Africa and Global Health, House Committee on Foreign Affairs
- Representative Barbara Lee, Member, House of Representatives

Objectives

Our objectives are to answer the following questions:

1. What are the resources required for the international financial institutions to finance HIPC and MDRI? How much funding is required and committed from donor countries, and what is the U.S. share of this funding?
2. What policies and performance conditions are countries required to implement in order to qualify for debt cancellation? How is compliance monitored, and do these conditions contribute to or interfere with the reduction of poverty?
3. What are the strategies for preventing unsustainable borrowing once MDRI is implemented and preventing those who are not party to current debt cancellation agreements from taking advantage of debt cancellation?

Scope

- We will focus our work on four major international financial institutions—the International Monetary Fund, the International Bank for Reconstruction and Development/International Development Association, the African Development Bank/African Development Fund, and the Inter-American Development Bank.

- To determine the required IMF funding under the enhanced HIPC initiative and the MDRI, including U.S. government funding requirements, we will identify the total and annual funding requirements of the IMF for debt relief under these initiatives by examining internal and external funding sources and projected cash inflows and outflows. The cost estimate will be based on countries that are eligible for HIPC or MDRI debt relief.
- To review policies and performance conditions required of countries receiving debt relief and how these factors affect poverty reduction, we will identify and review such requirements via IMF debt relief policy and planning documents. We will also review available documentation citing efforts to execute such requirements and issues associated with implementation. Further, we will discuss the impact of these requirements with IMF staff, and review any relevant and available research that has been prepared.
- We will identify and review strategies under consideration or in effect to prevent future unsustainable borrowing as well as to prevent outside parties from profiting from debt relief efforts. We will discuss these strategies, including efforts to implement these strategies and any identifiable progress made to date, if available, with IMF staff.

#### Methodology/Data Gathering

- Obtain and review information from IMF annual reports, financial statements, long-term assumptions and projections, and relevant MDRI and HIPC documents from the IMF such as decision and completion point documents and other economic and financial data for HIPCs and other relevant countries eligible/expected to be eligible for MDRI. Using data on each IMF HIPC and MDRI debt relief commitment and IMF cash flows, determine required resources and the degree to which current/expected IMF resources are sufficient to cover debt relief obligations. Discuss/clarify IMF and GAO analysis with IMF staff.
- Obtain and summarize policy, planning, and reporting documents regarding policies and performance conditions required of countries benefiting from MDRI, as well as available assessments of the impact of such requirements in reducing poverty in beneficiary countries. Discuss this issue with IMF staff.
- Obtain and summarize IMF documentation detailing strategies under consideration or adopted, as well as progress reports where available, to prevent (1) future unsustainable borrowing by MDRI countries, and (2) outside parties from profiting from debt relief agreements. Discuss with IMF staff.

The work will be performed in accordance with generally accepted government auditing standards.

#### Support Requested From IMF Staff

We will work closely with Treasury to ensure GAO's access to officials working at the IMF. We are seeking to obtain documents publicly available or provided to the Executive Board through the USED's office. We are seeking interviews with staff at the IMF primarily to clarify information that is presented in documents.

Prior to publication of this report, and consistent with our international protocols, we will give the IMF the opportunity to comment on sections of the draft report to which they are a party.

#### Time Frames

- Begin to obtain and review documents in December 2007 and continue through issuance of report
- Interviews with IMF to begin in January 2008
- Report issuance in summer/fall 2008

#### Information Requested From IMF

We do not anticipate requesting documents that have not gone to the Executive Board of the IMF. However, if a need for such documents arises, we will coordinate with the USED office on how to proceed.