

**Letter to the President of the World Bank from the G8 Finance Ministers  
on the G8 Debt Proposal, Washington, 23 September 2005**

Dear President Wolfowitz

G8 Finance Ministers have agreed a proposal to complete the process of debt relief for 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). This proposal was reaffirmed by G8 Heads of State and Government at Gleneagles.

We believe that this proposal will bring major benefits to IDA's membership; that it will preserve and enhance the Bank's key role in supporting low-income countries; and that it will ensure that substantial additional resources are allocated on the basis of need, governance and the ability to use them effectively for poverty reduction and growth.

The key element of the proposal is that debt relief will be fully financed to ensure that the financing capacity of International Financial Institutions is not reduced. For this reason, in IDA and the AfDF, the G8 has committed, based on agreed burden shares, to cover the full cost to offset dollar for dollar the forgone principal and interest repayments of the debt cancelled for the duration of the cancelled loans. This letter reaffirms and sets out the detail of our commitment.

We will make available immediately additional funds to cover the full cost during the IDA 14 period and these funds will be fully additional to the resources already agreed during the IDA 14 replenishment. For the period after IDA 14, we are committed to cover the full costs for the duration of the cancelled loans and we will make contributions additional to regular replenishments of IDA. The G8 has committed, as a whole, to the contribution it made under IDA 13 (70.19%).

In order to create transparency and accountability, we ask that in future replenishment rounds that the costs of the debt relief initiative and the associated donor contributions be reported separately.

We will each implement these commitments expeditiously in line with our individual budgetary and Parliamentary procedures. Indeed, since our

meeting in June, and the meeting of G8 Heads of State and Government at Gleneagles, a number of us have been able to make progress:

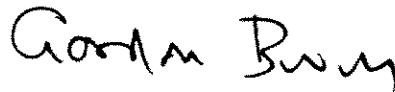
- The US Administration has provided clear support for a Congressional Bill that would approve the debt relief initiative and to authorise “such sums as may be necessary for payment” for the full duration of the cancelled loans.
- Japan reaffirmed its commitment to cover its share of the costs of the proposal and to exercise its best efforts to obtain necessary Diet approvals on the occasion of the regular replenishments to fulfil its commitment.
- Canada has already made an allocation to cover its share of total costs over the next five years and is currently seeking Parliamentary approval to disburse these funds. The Canadian Government will seek Parliamentary approval to disburse funds over the life of the agreement following its normal budgetary conventions.
- Germany confirms its commitments undertaken at Gleneagles. In particular, Germany remains committed to offset dollar for dollar, based on agreed burden shares, the foregone principal and interest payments of the IDA debt cancelled, subject to decisions to be taken by the new German Government and Parliament.
- The UK is committed to cover its share of the costs for the full duration of the cancelled loans. It had already budgeted to pay its share of the debt service costs of these countries until 2015, and it will make a firm financial commitment to cover its share of the full cost to IDA for the next ten years through a formal Parliamentary process.
- France is committed to cover its share of the costs for the full duration of the cancelled loans. It will seek in 2005 Parliamentary appropriations for commitment for the financial compensation of the lost reflows covering the period to 2015.
- Italy is committed to bring forward legislation that will authorise payments of its share of the cost for the full duration of the cancelled loans.

- The Russian Federation confirms its commitment to cover its share of the cost for the full duration of the cancelled loans. Necessary steps will be taken by the Government to ensure the budget appropriations will be made in a timely manner.

In addition, we reaffirm our commitment to the long-term role of IDA in the international development architecture and in financing development. In doing so we recognise that IDA will utilise a contribution baseline of the real value of donor contributions under IDA 14 as a means of assessing additionality. We also note that funding for IDA will continue to depend on donors' conviction of IDA's effectiveness in delivering development assistance; IDA reflows; and the performance, financing needs, and absorptive capacity of poor countries.

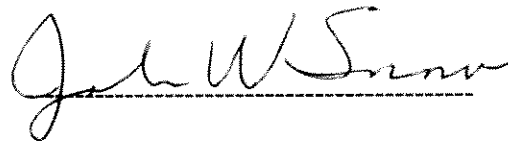
On the basis of our commitments, and the actions we have taken and will take, we firmly believe that this initiative will strengthen the financial capacity of IDA. We strongly believe that this initiative represents a historic opportunity and we hope it will be seized by the whole membership at the Annual Meetings.

Gordon Brown, Chancellor of the Exchequer, United Kingdom



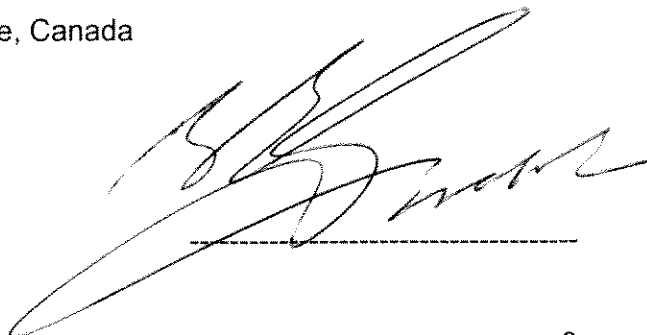
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John Snow, Secretary to the Treasury, United States of America



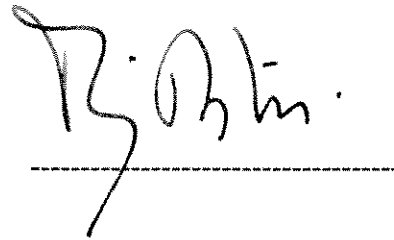
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Ralph Goodale, Minister of Finance, Canada



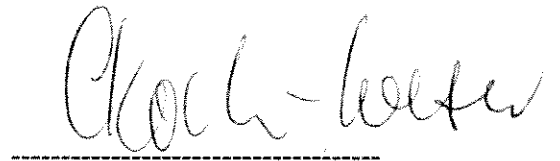
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Thierry Breton, Minister for the Economy, Finance and Industry, France



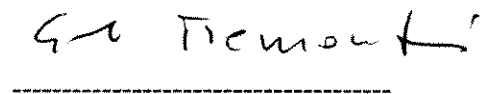
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Caio Koch-Weser, State Secretary, Ministry of Finance, Germany



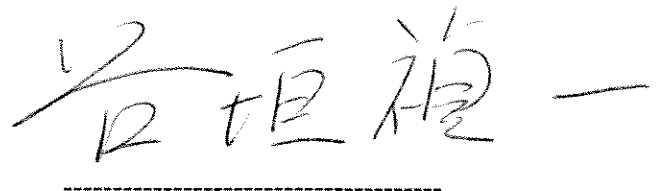
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Giulio Tremonti, Minister of Economy and Finance, Italy



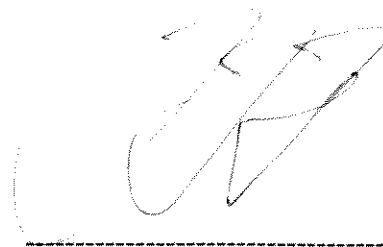
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Sadakazu Tanigaki, Minister of Finance, Japan



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Alexei Kudrin, Finance Minister, Russia



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