EXPLANATORY MEMORANDUM TO

THE AFRICAN DEVELOPMENT FUND (MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2008

2008 No. 2089

1. This explanatory memorandum has been prepared by the Department for International Development and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. Description

2.1 The proposed Order increases the amount payable by the Secretary of State from £79.19 million to an amount not exceeding £122.7 million to the African Development Fund (AfDF) of the African Development Bank for the purposes of the Multilateral Debt Relief Initiative (MDRI). This increase is pursuant to arrangements that have been made between the AfDF and Her Majesty's Government of the United Kingdom in accordance with Resolution No. F/BG/2006/12 of the Board of Governors of the AfDF on 18 May 2006.

2.2 Additionally, the Order permits the Secretary of State to continue to make payment of sums required to redeem any non-interest bearing and non-negotiable notes or other obligations that may be issued or created by him as a result of the arrangements that are to be made by the Government of the United Kingdom and the AfDF regarding the payments.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 The proposed Order will be made under section 11 of the International Development Act 2002. Whilst many replenishment payments to multilateral development banks and a previous payment for the purposes of the MDRI have been authorised under this section, this, along with the International Development Fund (Multilateral Debt Relief Initiative) Order 2008, is the first time it is being used to amend a previous Order. Article 2(a) simply increases the amount that may be paid by the Secretary of State to the AfDF. Article 2(b) provides that the Secretary of State shall make the payments in accordance with section 11. The previous practice was for the Secretary of State to give an undertaking not to make the Order until he was bound to make the payment. The addition of the amendment obviates the need for this undertaking. The addition of the words "in accordance with section 11 of the International Development Act 2002" was first made in the International Fund for Agricultural Development (Seventh Replenishment) Order 2007 (SI. No.3457). The explanatory memorandum to that Order sets out this point in more detail.

4. Legislative Background

4.1 The proposed Order is being made to enable the Secretary of State to contribute further (the United Kingdom has contributed once previously to the AfDF for the purposes of the MDRI) to AfDF[1]. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the AfDF with additional resources to preserve, after further debt stock cancellation for Heavily Indebted Poor Countries (HIPC), its commitment capacity for lending on highly concessional terms to the poorest countries in Africa. The Order is to be made under section 11 of the International Development Act 2002 which permits the Secretary of State to make relevant payments to multilateral development banks where the Government of the United Kingdom is bound to make such a payment, but that in order to make a payment he must make an order, which has Treasury approval and a draft of which has been approved by the House of Commons.

5. Extent

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 Douglas Alexander, the Secretary of State for International Development, has made the following statement regarding Human Rights:

In my view the provisions of the African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2008 are compatible with the Convention rights.

7. Policy Background

7.1 The Department for International Development is responsible for leading the United Kingdom's contribution to promoting development and the reduction of poverty. The Department's overall objective is the elimination of world poverty. This objective was set out in the 1997 White Paper "Eliminating World Poverty: A Challenge for the 21st Century", and reaffirmed in the 2000 White Paper "Eliminating World Poverty: Making Globalisation Work for the Poor". In 2006, the Department published its third White Paper "Eliminating World Poverty: Making Governance Work for the Poor" which reiterated this objective which set out the forward agenda for the Department over the next five years. The Department delivers its international development funds through a combination of bilateral programmes, and contributions to various international financial institutions, such as the AfDF of the African Development Bank.

7.2 The African Development Bank is a regional development bank established in 1964. Its purpose is to foster economic growth and co-operation in Africa and to contribute to the acceleration of the process of economic development of its regional members, both collectively and individually. The African Development Bank is structured along similar lines to the World Bank, with two main lending windows: the African Development Bank which lends at market rates of interest; and the AfDF which lends on highly concessional terms to poorer African countries, providing them with grants and "credits" for projects or

[1] The African Development Fund (Multilateral Debt Relief Initiative) Order 2006 (2321)

programmes. "Credits" are loans at zero interest with a 10-year grace period and maturities of up to 50 years. The AfDF was established by the African Development Bank in 1972, commencing operations in 1975. The AfDF receives repayments of principal and interest due on outstanding credits from its borrowing members. Its resources are also replenished on a regular basis, generally every three years, by contributing members.

7.3 When they met in London in June 2005, the G8 Finance Ministers proposed that debt stock cancellation be extended so that 100% of the remaining debts owed by qualifying countries to the International Monetary Fund, the International Development Association and the AfDF would be cancelled. The costs of this debt stock cancellation at the International Development Association and the AfDF in terms of foregone debt service payments would be met in full by donors, thus maintaining the funds' ability to continue to lend on concessional terms. The MDRI was implemented in 2006 and provides considerable additional resources to all poor countries to accelerate their progress towards the Millennium Development Goals (MDGs). In total, over $50 billion in debt stock at the International Development Association, the International Monetary Fund and AfDF will be cancelled when the proposal is fully implemented, and about $1 billion a year will be freed up for spending on poverty reduction in 2007, rising to $1.7 billion by 2010.

7.4 Under the MDRI, countries receive 100% irrevocable debt cancellation when they complete the Heavily Indebted Poor Countries Initiative (HIPC). There will be no further conditions attached. Countries that have already completed the Heavily Indebted Poor Countries Initiative (HIPC) will need to demonstrate that they have maintained their commitment to poverty reduction and good macro-economic and public expenditure management. The allocation of additional donor resources through the existing Performance Based Allocation systems will maintain a strong incentive for good policy and performance. In addition the World Bank, African Development Bank and International Monetary Fund staff will 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.

7.5 To ensure that the financing capacity of the International Development Association and AfDF is not reduced, the UK and other contributing members have committed to cover the costs of debt cancellation for the duration of the loans. These funds will be additional to the resources the UK had already agreed for these institutions as part of the latest replenishments of the funds. In 2006 G8 Finance Ministers agreed that in future replenishment rounds the costs of the debt relief initiative be reported separately to ensure that they are clearly distinguishable. Separate authorisation is being sought at or around the same time as this Order for payments to the International Development Association for the purposes of MDRI.

7.6 The Board of Governors of the AfDF adopted Resolution F/BG/2006/12 concerning the Multilateral Debt Relief Initiative on 18 May 2006. A copy of this Resolution has been laid in the House of Commons library. Under the terms of that Resolution the UK undertook to pay £79.19 million which was subsequently approved under the African Development Fund (Multilateral Debt Relief Initiative) Order 2006[2]. This was to be paid in regular instalments from 2007-2016. The Resolution also provided that the AfDF would reflect changes in actual and estimated costs of MDRI debt

[2] S.I. 2006/2321

forgiveness by making adjustments to donor contributions to the MDRI every three years in line with replenishments to the AfDF. Negotiations on the eleventh replenishment of the AfDF (AfDF 11) were concluded in December 2007. Over the next three years the total resources available to the AfDF will be around £4.45 billion. Donors agreed to contribute around £2.8 billion and the UK's contribution over the next three years is £417 million, 14.8% of the total donor contribution. Authorisation for this payment is being sought by an Order, the African Development Bank (Eleventh Replenishment to the African Development Fund) Order 2008, at or around the same time as this Order. These funds are separate to those provided for the purposes of MDRI.

7.7 As part of the AfDF 11 Replenishment discussions that were adopted by the Board on 28 March, it was agreed that donors should provide unqualified MDRI commitments for the Eleventh Replenishment disbursement period in order to maximise both the Advance Committee Capacity and the resources of the Eleventh Replenishment. This requires updating the cost estimates for debt cancellation by the AfDF under the MDRI and resulting changes to the compensation amounts payable by donors to the replenishment of resources to fund the MDRI. This Order will extend the payment period to 2020, the latter date coinciding with the end of the AfDF 11 disbursement period. The final cost of MDRI donor compensation will depend on market exchange rates, the timing of when beneficiary countries complete the HIPC Initiative and various AfDF replenishment rates.

7.8 In 2007 the overall cost of MDRI was revised for the period 2006-2054 from UA 5,836 million to UA 5,567 million. This was mainly due to excess donor contributions received during the 2006-2007 period and slippage of projected HIPC decision and completion point HIPCs, and the effects of applying the AfDF 11 foreign exchange reference rates. DFID's original encashment schedule to 2015 remains unchanged. At the each time of each AfDF Replenishment, the encashment profile will be adjusted for subsequent years.

7.9 As stated above, the purpose of the present Order is therefore to enable the Government of the UK to increase its MDRI contributions. The amounts agreed were reached through negotiations with the Board of Governors of the AfDF. The UK's contribution will be made in annual instalments, in accordance with the schedule agreed with the AfDF

8 Impact

8.1 An Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

9 Contact

9.1 Further information concerning the proposed instrument can be obtained from Derek Longley at the Department for International Development via e-mail (d-longley@dfid.gov.uk) or by telephone (020 7023 0901).

Department for International Development
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