**EXPLANATORY MEMORANDUM TO**

**THE AFRICAN DEVELOPMENT BANK (FIFTEENTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND) ORDER 2020**

**2020 No. [XXXX]**

## 1. Introduction

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

## 2. Purpose of the instrument

2.1 The proposed Order permits the Secretary of State for International Development in her role as Governor for the United Kingdom at the African Development Bank (hereafter "AfDB") to make a payment of £633,090,000 towards the fifteenth replenishment of the African Development Fund (hereafter the "Fund") made pursuant to arrangements that have been made between AfDB and Her Majesty's Government in accordance with Resolution No F/BG/2020/01of the Fund's Board of Governors dated 14th May 2020.

## 3. Matters of special interest to Parliament

***Matters of special interest to the Select Committee on Statutory Instruments***

3.1 None.

***Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)***

3.2 This entire instrument applies to England, Wales and Northern Ireland only and is a financial instrument for the purposes of Standing Order No. 83T of the Standing Orders of the House of Commons relating to Public Business.

3.3 In the view of the Department, for the purposes of House of Commons Standing Order No. 83P of the Standing Orders of the House of Commons relating to Public Business, the subject-matter of this instrument would not be within the devolved legislative competence of any of the Northern Ireland Assembly as a transferred matter, the Scottish Parliament or the National Assembly for Wales if equivalent provision in relation to the relevant territory were included in an Act of the relevant devolved legislature.

## 4. Extent and Territorial Application

4.1 The territorial extent of this instrument is the United Kingdom.

4.2 The territorial application of this instrument is the United Kingdom.

## 5. European Convention on Human Rights

5.1 The Rt Hon Anne-Marie Trevelyan MP, the Secretary of State for International Development, has made the following statement regarding Human Rights:

"In my view the provisions of the African Development Bank (Fifteenth Replenishment of the African Development Fund) Order 2020 are compatible with the Convention rights."

## 6. Legislative Context

6.1 The proposed Order is being made to enable the Secretary of State to contribute further to the Fund. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the Fund with commitment capacity for its continued provision of grants and concessional lending to the poorest countries in Africa over the three-year period, 2020-2022.

6.2 Section 11 of the International Development Act 2002 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 the Secretary of State must make an order, which has Treasury approval, a draft of which has been approved by the House of Commons.

## 7. Policy background

***What is being done and why?***

7.1 The Bank is a regional development bank established in 1964. Its purpose is to foster economic growth and co-operation in Africa and to reduce poverty while contributing to the acceleration of the economic development of its regional members, both collectively and individually. The major regional shareholders are Nigeria, Egypt, and South Africa. The major non-regional shareholders are the USA, Japan and Germany. The United Kingdom is a relatively small shareholder, with a shareholding of 1.751 per cent.

7.2 The Bank is structured along similar lines to the World Bank, with two main lending windows: the Bank which lends at near market rates of interest; and the African Development Fund ("the Fund") which lends on highly concessional terms and provides grants to the less developed members of the Bank. The Fund was established by the Bank in 1972, commencing operations in 1975, and is primarily donor funded. It is replenished every three years. Negotiations on the fifteenth replenishment of the Fund (ADF-15) commenced in March 2019 and were concluded in December 2019.

7.3 Since the creation of the Fund, there have been fourteen replenishments. The United Kingdom has contributed to these replenishments as follows:

- Initial funding (1976-1978): £10,000,000
- 2nd Replenishment (1979-1981): £18,499,554
- 3rd Replenishment (1982-1984): £24,170,300
- 4th Replenishment (1985-1987): £30,934,961
- 5th Replenishment (1988-1990): £57,833,971
- 6th Replenishment (1991-1993): £71,915,912
- 7th Replenishment (1996-1998): £70,225,661
- 8th Replenishment (1999-2001): £98,639,079

- 9th Replenishment (2002-2004): £121,333,000
- 10th Replenishment (2005-2007): £206,191,098
- 11th Replenishment (2008-2010): £417,000,000
- 12th Replenishment (2011-2013): £567,000,000
- 13th Replenishment (2014-2016): £603,585,673
- 14th Replenishment (2017-2019): £460,100,000

7.4 The UK's contribution of £633,090,000 for the fifteenth replenishment (2020-2022) will focus on delivering the twin objectives of inclusive and green growth through implementing the AfDB 'High 5'; Power Africa, Integrate Africa, Feed Africa, Industrialise Africa and improve the quality of life in Africa. These are priorities within the already approved ten-year strategy for the Bank which focuses on inclusive growth and green growth Specific commitments and objectives are set out in the replenishment negotiations concluding 'Deputies Report'. The total UK replenishment breaks down as follows:

- £518 million in core funding
- £13.09 million in grant compensation (stemming from prior commitments).
- £102 million in performance-based funding, dependent on positive results reported at the mid-term review.

7.5 For the current 5-year period until 2022, Africa's real GDP was projected to grow at 3.9% annually. However, providing better jobs, ensuring growth is sustainable and reducing inequalities needs to be at the forefront of policy-making for growth to improve well-being and boost industrialisation. Africa is the poorest continent on the planet, 28 of the world's poorest countries are African. Sub-Saharan Africa is home to the second largest population of hungry people. Growth in Sub-Saharan Africa remains below population growth for the fourth consecutive year, and although regional growth was expected to rebound it will have remained below 3% since 2015. The slower-than-expected overall growth in previous years reflects ongoing global uncertainty, but increasingly comes from domestic macroeconomic instability including inflation, deficits, political uncertainty; and fragility. Public debt levels and debt risk are rising, which might jeopardize debt sustainability in some countries; the availability of good jobs has not kept pace with the number of entrants to the labour force; fragility is costing the subcontinent a half of a percentage point of growth per year; and poverty is widespread. While growth is expected to increase in 2020, it will likely remain insufficient to reduce poverty significantly. Total poverty headcount at the international poverty line ($1.90/day) is projected to decline only marginally. Some of the common challenges of today, from investing in youth, fostering sustainable development and strengthening peace and security to boosting investment in the African continent, supporting good governance and better managing migration can all be driven forward with DFID's monetary and technical investments into the Fund.

7.6 The Fund is the Bank Group's concessionary window. It provides financing for low-income countries using a performance-based allocation system to ensure efficiency and equity. The major beneficiaries of the Fund in 2016 were Ethiopia, Tanzania and Kenya. The Bank expects the following results will be delivered by programmes approved with ADF-15 funding:

- Power: Up to 5.4 million people with new or improved electricity connections.

  The Bank plans to respond to the growing energy needs of Africa, improving the quality of life by increasing access, enabling better quality services and abating pollution by reducing reliance on fossil fuels.

- Transport: up to 20 million will have improved access to transport.

  The Bank aims to create the necessary infrastructure to unlock the development potential of African countries by funding the construction and rehabilitation of roads and feeder roads that will, for example, connect smaller rural communities to major roads, market towns and urban centres.

- Water and sanitation: up to 5 million people to have access to water and sanitation.

  The Bank plans to increase the number of people with access to clean water by increasing the reliable supply of safe water.

- Agriculture and Food Security: Up to 6 million people benefitting from improvements in agriculture.

  The Bank will work to boost Africa's agriculture sector and improve food security by improving irrigation and water management and promoting increased resilience to shocks and natural disasters through measures such as replanting and reforestation.

7.7 The Bank will also deliver internal reforms agreed as part of the Fund's Replenishment. These reforms, such as those listed below, will improve the way the Bank and the Fund is run and enable a more substantial contribution towards Africa's development targets:

- An increase in the number of operations with climate informed design.
- An increase in the number of operations with gender informed design.
- Time of procurement of goods and works decreases.
- A decrease in the time between project concept and the first disbursement of project funds.
- Improving operational focus and support in fragile states.

7.8 The Fund adopted the Fifteenth Replenishment Resolution (Resolution F/BG/2020/01 on 14th May 2020. A copy of Resolution No F/Bg/2020/01 has been laid in the House of Commons library together with the ADF-15 Donors Report. In accordance with Resolution F/BG/2020/01 the United Kingdom's contribution will be made in the form of non-negotiable, non-interest bearing promissory notes expressed in pounds sterling and encashable on demand. In addition, the Resolution requests adjustments to the UK Instrument of Commitment for payments to the Fund under the Multilateral Debt Relief Initiative. Authorisation for the payments to be made under these adjustments will be sought using a separate draft Order, under section 11 of the 2002 Act, the African Development Fund (Multilateral Debt Relief Order) (Amendment) Order 2020. That draft order will be laid at or around the same time as this Order.

## 8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act.

## 9. Consolidation

9.1 Not relevant in the context of this instrument.

## 10. Consultation outcome

10.1 Not relevant in the context of this instrument.

## 11. Guidance

11.1 Not relevant in the context of this instrument.

## 12. Impact

12.1 There is no significant, impact on business, charities or voluntary bodies.

12.2 There is no significant, impact on the public sector.

12.3 An Impact Assessment has not been prepared for this instrument.

## 13. Regulating small business

13.1 The legislation does not apply to small businesses in the United Kingdom.

## 14. Monitoring & review

14.1 The Order does not include a statutory review clause because it has no regulatory effect on business.

14.2 The Bank agreed a Bank-wide Results Measurement Framework following consultation with shareholders and the Fund donors, including the UK, that sets targets for the efficiency and effectiveness of the Bank's operations and the impact on poor people. The Bank's management will review the Fund's outputs as part of its wider Annual Development Effectiveness Review that is published every May and report to the Board of Governor's at the Annual Meeting on progress against its institutional reform commitments and their impact. The Bank will also host a Mid-Term Review of ADF-15 with donors during the autumn of 2021 to assess progress.

14.3 Regular and effective monitoring, reviewing and lesson learning are critical to how DFID will measure the results of ADF-15 and demonstrate its value for money. DFID's monitoring will be undertaken through its own Annual Reviews in 2021-2022 and a final Project Completion Review of ADF-15 in 2023. Evidence to inform the DFID reviews will be drawn from a number of sources, including Bank reporting, the ADF-15 Mid Term Review, consultation with the UK Executive Director at the Bank's Headquarters, and feedback from DFID country offices. Other sources of information include internal and independent evaluations and reports by organisations such as Independent Commission for Aid Impact (ICAI).

## 15. Contact

15.1 Helen Yaxley at the Department for International Development, h-yaxley@dfid.gov.uk can be contacted with any queries regarding the instrument.

15.2 Phil Stevens Deputy Director for International Financial Institutions at the Department for International Development can confirm that this Explanatory Memorandum meets the required standard.

15.3 Rt Hon Ann-Marie Trevelyan MP, Secretary of State for International Development, at the Department for International Development can confirm that this Explanatory Memorandum meets the required standard.