EXPLANATORY MEMORANDUM TO

THE AFRICAN DEVELOPMENT BANK (THIRTEENTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND) ORDER 2014

[2014] No. [XXXX]

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

2. Purpose of the instrument

The proposed Order permits the Secretary of State to make a further contribution of £603,585,673 to the African Development Fund ("the Fund") of the African Development Bank ("the Bank"). This further contribution will be made pursuant to arrangements that have been made between the Bank and Her Majesty's Government in accordance with Resolution No F/BG/2014/01 of the Fund's Board of Governors dated 31st January 2014.

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

3.1 None

4. Legislative Context

4.1 The proposed Order is being made to enable the Secretary of State to contribute further (the UK has contributed to the previous twelve replenishments) to the Fund of the Bank. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the fund with commitment capacity for its continued lending on highly concessional terms and to provide grants to the poorest countries in Africa over the three-year period, 2014-2016.

4.2 Where the Government of the United Kingdom becomes bound to make a payment to a multilateral development bank, Section 11 of the International Development Act 2002 permits the Secretary of State to make a payment to that bank, once she has made an order with the approval of the Treasury, a draft of which has been approved by the House of Commons.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

Justine Greening, the Secretary of State for International Development has made the following statement regarding Human Rights:

In my view the provisions of the Bank (Thirteenth Replenishment of the Fund) Order 2014 are compatible with the Convention rights.

7. Policy background

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 1.691 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 market rates of interest; and 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 usually every three years. Negotiations on the thirteenth replenishment of the Fund (ADF-13) commenced in February 2013 and were concluded in September 2013.

7.3 Since the creation of the Fund, there have been twelve 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

7.4 The UK's increased contribution of £603,585,673 for the thirteenth replenishment (2014-16) will help the Bank to invest further in areas of the Fund's comparative advantage (i.e. infrastructure, regional integration, private sector development, governance and accountability, and skills and technology); while addressing the 2011 UK Multilateral Aid Review reform priorities (i.e fragile states, gender, climate change, results and value for money).

7.6 Africa has experienced strong economic growth over the last decade despite the difficult global context. However, for the substantial majority of the Millennium Development Goals (MDG), whilst progress has been made, the 2015 targets will not be met. Extreme poverty and rates of child mortality and maternal health have fallen, as has the incidence of HIV/AIDS and malaria, but all by less than projected. Malaria-related deaths have declined by a third since 2000, but the disease continues to kill many, especially young and vulnerable people. Access to improved water and sanitation has barely risen since 2005. Gender equality challenges remain, although the share of women in employment outside agriculture is increasing. The Bank has an important role in helping accelerate progress in tackling poverty.

7.7 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 2013 were Ethiopia, Kenya and Tanzania. ADF-13 programmes in the pipeline focus on national and regional infrastructure development {transport, energy, water & sanitation and ICT}(approximately 75%), governance and accountability (9%), agriculture & food security (6%), and skills & technology (4%). The Bank will also implement a number of reforms to enhance its effectiveness and efficiency. The Bank expects the following results will be delivered by programmes approved with ADF-13 funding:

- **Power:** 20 million people to be connected to reliable and affordable energy.

  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:** 19 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:** 7.5 million 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.

- **Education:** 3 million will have opportunities to vocational and technical training.

  The Bank's investments in education aim to improve availability, access and quality of education by training teachers, building schools and classrooms and supporting other existing educational facilities.

- **Agriculture and Food Security:** 7 million to benefit from increased agricultural productivity.

  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.

7.8 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 MDG targets:

- An increase in the number of projects being designed to enhance the potential impact on women and girls.

- An increase in the number of projects rated satisfactory or higher on completion.

- A decrease in the time between project approval to the first disbursement of project funds.

- A reduction in the amount of administration costs as a proportion of total spending on projects.

7.1 7.8 The Fund adopted the Thirteenth Replenishment Resolution (Resolution No F/BG/2014/01) on 31st January 2014. A copy of Resolution No F/ BG/2014/01 has been laid in the House of Commons library together with the ADF-13 Donors Report. In accordance with Resolution No F/BG/2014/01 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 2014. That draft order will be laid at or around the same time as this Order.

8. Consultation outcome

8.1 Not relevant in the context of this instrument.

9. Guidance

9.1 Not relevant in the context of this instrument.

10. Impact

10.1 An Impact Assessment has not been prepared for this instrument because there is no impact on business, charities or voluntary bodies.

11. Regulating small business

11.1 The legislation does not apply to small business in the United Kingdom.

12. Monitoring & review

12.1 The Bank agreed a new Results Measurement Framework for 2014-2016 following consultation with shareholders and 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. The Bank will also host a Mid-Term Review of ADF-13 with donors during the autumn of 2015 to assess progress.

12.2 Regular and effective monitoring, reviewing and lesson learning are critical to how DFID will measure the results of ADF-13 and demonstrate its value for money. DFID's monitoring will be undertaken through its own Annual Reviews in 2015-2016 and a final Project Completion Review of ADF-13 in 2017. Evidence to inform the DFID reviews will be drawn from a number of sources, including the Bank's Annual Development Effectiveness Review and Annual Report, the ADF-13 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 the Multilateral Organisation Performance Network.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Paula Barrett at the Department for International Development via e-mail: (p-barrett@dfid.gov.uk or telephone 020 7023 0860.