EXPLANATORY MEMORANDUM TO

THE AFRICAN DEVELOPMENT FUND (MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2011

2011 No.

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.

2. Description

2.1 The proposed Order increases the amount payable by the Secretary of State to the African Development Fund ("the Fund") of the African Development Bank ("the Bank") for the purposes of the Multilateral Debt Relief Initiative (MDRI) from £122.7 million to an amount not exceeding £196.3 million. This increase is pursuant to arrangements that have been made between the Fund 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 Fund on 18 May 2006.

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

3.1 None.

4. Legislative Background

4.1 The proposed Order is being made to enable the Secretary of State to contribute a larger amount to the Fund for the purposes of the MDRI. The amount of the United Kingdom's commitment to the Fund for this purpose was increased previously in 2008[1]. The purpose of this further increase in contributions, together with contributions pledged by other donors, is to provide the Fund 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 proposed draft Order is to be made under section 11 of the International Development Act 2002. That section permits the Secretary of State to make relevant payments to multilateral development banks where the Government of the United Kingdom becomes 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.

[1] The African Development Fund (Multilateral Debt Relief Initiative) Order 2006 (S.I.2321/2006) permitted the Secretary of State to contribute to the MDRI, but was amended by the African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2008 (S.I. 2008/2089) to reflect the UK's increased contribution.

6. European Convention on Human Rights

6.1 Andrew Mitchell, 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 2011 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 contribute 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 1.679 percent.

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 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 twelfth replenishment of the African Development Fund (ADF-XII) commenced in October 2009 and were concluded in January 2011.

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 Fund would be cancelled. The costs of this debt stock cancellation at the International Development Association and the Fund in terms of foregone debt service payments would be met in full by donors, thus maintaining the ability to continue to lend on concessional terms. The MDRI was established 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 the African Development Fund will be cancelled when the proposal is fully implemented.

7.4 Under the MDRI, countries receive 100% irrevocable debt cancellation when they complete the Heavily Indebted Poor Countries Initiative (HIPC). The allocation of the additional concessional lending made possible through MDRI using 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 the Fund 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.

7.6 The Board of Governors of the Fund 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 Fund would reflect changes in actual and estimated costs of MDRI debt forgiveness by making adjustments to donor contributions to the MDRI every three years in line with replenishments to the Fund. The UK contribution was later increased to £122.7 million under the African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2008 in order to cover the period until 2020.

7.7 Negotiations on the Twelfth replenishment of the Fund (AfDF 12) were concluded in January 2011. Donors agreed to contribute around £3.7 billion and the UK's contribution over the next three years is £567 million, 14% of the total donor contribution. Authorisation for that payment to the Fund is being sought by a laying a separate draft Order before the House of Commons, the African Development Bank (Twelfth Replenishment of the African Development Fund) Order 2011, at or around the same time as this draft Order. Those funds are separate to the funds provided for the purposes of the MDRI.

7.8 As part of the AfDF 12 Replenishment discussions that were adopted by the Board on 20 January 2011, it was agreed that donors should provide unqualified MDRI commitments for the Twelfth Replenishment disbursement period in order to maximise both the Bank's internal resources as well as the donor resources from the Twelfth Replenishment. This means it is necessary to update the cost estimates for debt cancellation by the Fund under the MDRI and has resulted in changes to the compensation amounts payable by donors to the replenishment of resources in order to fund the MDRI. This draft Order will allow the Secretary of State to commit an additional £73.6 million to MDRI and in practical terms will extend the payment period to 2024, coinciding with the end of the AfDF 12 disbursement period. In addition, the UK commitment has changed as a result of slippage of projected HIPC decision and completion points, and the effects of applying the AfDF 11 foreign exchange reference rates. 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 Fund replenishment rates.

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 Fund. The UK's contribution will be made in annual instalments, in accordance with the schedule agreed with the Fund.

[2] S.I. 2006/2321

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 as it has no impact on business, charities or voluntary bodies.

11 Regulating Small Businesses

11.1 This legislation does not apply to small businesses in the United Kingdom.

12 Monitoring and Review

12.1 In order to focus on strategic priorities and to monitor and measure progress, donors agreed a set of targets and milestones for AfDF 12. An independently moderated Mid-Term Review of AfDF 12 will be undertaken by the Bank with participation from donors and recipient countries. The Bank also produces annual reports on development effectiveness as well as financial and operational statements.

12.2 DFID also monitors the Fund's performance as part of its continuous engagement with the Bank and has produced a Logical Framework to monitor progress against a set of performance indicators that is available on DFID's public website.

13 Contact

13.1 Further information concerning the proposed instrument can be obtained from Matt Easton at the Department for International Development via e-mail (M-Easton@dfid.gov.uk) or by telephone (020 70230165).

Department for International Development
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