EXPLANATORY MEMORANDUM TO

THE AFRICAN DEVELOPMENT FUND (MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2017

2017 No. [XXXX]

1. Introduction

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

2. Purpose of the instrument

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 £262.2 million to an amount not exceeding £329.03 million in total contribution received. 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 Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

Other matters of interest to the House of Commons

3.2 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland and Northern Ireland and is not a financial instrument that relates exclusively to England, Wales and Northern Ireland.

4. Legislative Context

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], 2011[2] and in 2014[3]. 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 over the period 2007-2029.

[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.
[2] The African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2011 (S.I 1511/2011) Article 2.
[3] The African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2014 (2014. No. 2457)

4.2 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 she must make an order, which has Treasury approval and a draft of which has been approved by the House of Commons.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom

6. European Convention on Human Rights

6.1 Priti Patel, 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 2017 are compatible with the Convention rights."

7. Policy background

7.1 The African Development Bank is a regional development bank established in 1964. Its purpose is to foster economic growth and reduce poverty in Africa. The major regional shareholder is South Africa. The major non-regional shareholders are France, USA, Japan and Germany. The United Kingdom shareholding in the African Development Bank is 1.753 percent[4].

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 14th replenishment of the African Development Fund commenced in March 2016 and were concluded in December 2016.

7.3 The HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faced a debt burden it could not manage. HIPC is funded from resources provided by multilateral, bilateral and commercial creditors.

7.4 Under the MDRI, countries receive additional debt relief, above what is provided under the Heavily Indebted Poor Countries Initiative (HIPC). The MDRI was agreed by G8 Finance Ministers meeting in London in June 2005. They proposed that 100% of the remaining debts owed by qualifying countries to the International Monetary Fund, the International Development Association and the African Development Fund would be cancelled. The total cost of debt relief to creditors under the HIPC Initiative is currently estimated to be US$74.8 billion, while the costs to the four multilateral creditors providing relief under the MDRI is estimated to be an additional US$41.6 billion in end-2014 present value terms[5].

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[4] African Development Bank, "STATEMENT OF VOTING POWERS, AND INFORMATION NOTE ON CAPITAL SUBSCRIPTIONS AS AT 31 MARCH 2017", ADB/BD/IF/2017/87 (17/05/2017)

[5] IMF, March 2016 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — statistical update'

7.5 To ensure that the financing capacity of the International Development Association and the Fund is not reduced as a result of the additional MDRI debt relief, the United Kingdom and other contributing members have committed to cover the costs of debt cancellation for the duration of the loans. The contributors reimburse the Fund on an ongoing basis, compensating them for loan repayments at the time that they would have been due. This compensation is additional to the resources the United Kingdom contributes to these institutions as part of the replenishments of their core funds. In 2006, G8 Finance Ministers agreed that in future replenishment rounds the costs of the debt relief initiative be reported separately to core replenishments, 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 United Kingdom undertook to pay £79.19 million which was subsequently approved under the African Development Fund (Multilateral Debt Relief Initiative) Order 2006[6]. 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 United Kingdom 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 and further increased to £196.3 million under the African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2011 to cover the period until 2024. The last update prior to 2017 was in 2014 when the United Kingdom's contribution increased from £196.3 million to £262.2 million covering the period up to 2026.[7]

7.7 The 14th Replenishment Resolution (Resolution F/BG/2017/01) was adopted on the 27th April 2017. The total replenishment was £4.27 billion and the United Kingdom's contribution over the next three years is £460,100,000, 10.467% of the total donor contribution. Authorisation for that payment to the Fund is being sought by laying a separate draft Order before the House of Commons, the African Development Bank (14th Replenishment of the African Development Fund) Order 2017, at or around the same time as this draft Order. Those funds are separate to the funds provided for the purposes of the MDRI though both will contribute to the results agreed for AfDF 14.

7.8 As part of the ADF 14 Resolution that was adopted by the Governors in 2017, it was agreed that donors should provide unqualified MDRI commitments for the Fourteenth Replenishment disbursement period in order to maximise both the Bank's internal resources as well as the donor resources from the Fourteenth Replenishment. This means it is necessary to update the cost estimates for debt cancellation by the ADF 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.

7.9 This draft Order will allow the Secretary of State to commit an additional £66.8 million to MDRI and will extend the disbursement period to 2029, coinciding with the end of the AfDF 14 disbursement period. The final cost of MDRI donor compensation

6 The African Development Fund (Multilateral Debt Relief Initiative) Order 2006 (S.I.2321/2006) permitted the Secretary of State to contribute to the MDRI

7 The African Development Fund (Multilateral Debt Relief Initiative) Order 2014 (S.I 2457/2014) (S.I.2321/2006)

will depend on the exchange rates used and the date when the debt relief process is completed for each country.

7.10 As stated above, the purpose of the present Order is therefore to enable the Government of the UNITED KINGDOM to increase its MDRI contributions. The United Kingdom's contribution will be made in annual instalments, in accordance with the schedule agreed with the Fund.

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

10.2 There is no expected impact on the public sector.

10.3 An Impact assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & 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 14. An independently moderated Mid-Term Review of AfDF 14 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 The United Kingdom is represented on the Board of Governors by the Secretary of State for International Development. The United Kingdom Executive Director to the Africa Development Bank represents the United Kingdom and contributes to oversight of the use of its resources as a member of the Africa Development Bank Board of Directors.

12.3 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. This is covered separately in the Explanatory Memorandum to the African Development Bank (14th Replenishment of the African Development Fund) Order 2017. An annual review will be available on DFID's public website.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Deborah McGurk at the Department for International Development via e-mail (d-mcgurk@dfid.gov.uk)