EXPLANATORY MEMORANDUM TO

THE ASIAN DEVELOPMENT BANK (ELEVENTH REPLENISHMENT OF THE ASIAN DEVELOPMENT FUND) ORDER 2017

2017 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by 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 permits the Secretary of State for International Development, in her role as Governor for the United Kingdom at the Asian Development Bank (hereafter "ADB"), to make a payment of £110,000,000 towards the eleventh replenishment of the Asian Development Fund (hereafter "ADF 12") pursuant to arrangements that have been made between ADB and Her Majesty's Government in accordance with resolution No. 382 of the Board of Governors of the ADB on 15 July 2016.

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 United Kingdom to contribute further to the ADF 12. The eleventh replenishment of the ADF is termed ADF 12 by the ADB as the original contributions to the Fund were not classified as a replenishment. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the ADF with commitment capacity for its continued provision of grants to the poorest countries in the Asia and Pacific Region over the four-year period, 2017-2020.

4.2 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, but that in order to make a payment the Secretary of State must make an order, which has Treasury approval and a draft of which has been approved by the House of Commons.

[1] The UK has contributed funds through ten replenishments in addition to the initial contribution: the eleventh replenishment is therefore called ADF 12 by the ADB. The UK's previous contribution was authorised by Statutory Instrument 2013/1771.

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 Asian Development Bank (Eleventh Replenishment of the Asian Development Fund) Order 2017 are compatible with the Convention rights."

7. Policy background

7.1 The ADF is a part of the ADB. The ADB is a regional development bank which fosters economic growth and co-operation in the region of Asia and the Pacific and contributes to the acceleration of economic development of its regional members. Despite recent rapid economic growth across the region, the poorest and financially vulnerable countries still face major financial and capacity constraints and challenges as they work towards the new Sustainable Development Goals (SDGs). The ADF aims to help the thirteen poorest ADB member countries which are Afghanistan, Kiribati, Maldives, Marshall Islands, Nauru, Samoa, Tuvalu, Bhutan, Kyrgyz Republic, Solomon Islands, Vanuatu, Tajikistan and Tonga. Seven of these countries receive only grant funding and another six receive a mix of ADF grants and highly concessional loans from the ADB (no or low interest rates and long grace and maturity periods).

7.2 ADB's focus in ADF countries is on sustainable infrastructure that benefits everyone. As with earlier ADF replenishments, infrastructure development will continue to be a mainstay of operations, encompassing investments in clean energy, sustainable transport, water, and urban development. ADF will also expand its social sector development interventions (education, health and social protection) to ensure its assistance reaches those most in need. ADF will specifically support fragile countries such as Afghanistan, countries in fiscal and debt distress, disaster risk reduction and direct response to disasters as well as to regional public goods, such as health security in Asia. As part of the ADF 12 Replenishment, 3% is allocated towards the sixth replenishment of the Technical Assistance Fund (TASF). The TASF provides technical assistance on a grant basis to any developing country in Asia and the Pacific to help them prepare projects and undertake technical or policy studies.

7.3 ADF 12 will be financed from three sources - donor contributions ($2.5bn), internal transfers of ADB resources ($1bn) and interest on liquidity ($0.2bn). The United Kingdom's £110 million support to the ADF 12 replenishment is core funding (not earmarked) and represents a burden share of 5.4% of the target replenishment contributions.

7.4 The merger of the ADB and ADF loan portfolios in January 2017 will enable the Bank to self-finance concessional lending ($13.2 billion for 2017-2020) for the first time. This means that only grant financing will be provided by the ADF from ADF 12 onwards, and not concessional lending as was previously the case. It also means that donors will only be required to contribute towards grant resources for this and future replenishments of ADF.

7.5 The ADB will deliver both direct development results through the ADF 12, and internal reforms agreed as part of the ADF Replenishment negotiations. These reforms will improve the way the ADF is run and enable the Fund to make a more substantial contribution towards the SDGs in the longer term. Core development outputs and outcomes expected during the ADF 12 period (2017-2020) for countries receiving ADF grants include:

- Energy: 117,000 new households connected to electricity, 410 MW installed energy generation capacity, 3,700 km transmission and distribution lines installed or upgraded.
- Climate change and renewable energy: Reduction of 108,000 tons of carbon dioxide equivalent greenhouse gas emissions per year.
- 6,000 km of roads and 450 km of railways built or upgraded.
- Water and sanitation: 159,000 households served with new or improved water supply, 141,000 households served with new or improved sanitation and 368,000 hectares of land improved through irrigation services, drainage and flood management.
- Education: 131,000 students benefiting from school improvement programmes, or direct support to, primary and secondary education, 17,000 teachers trained.
- Finance: 38,000 microfinance accounts opened or borrowing clients reached and 200 loan accounts opened by small and medium-sized enterprises or borrowing clients reached.

7.6 The ADF is replenished every four years. The United Kingdom has contributed as follows:

Initial funding (1973)	£11.4 million
1st Replenishment (1976)	£18.9 million
2nd Replenishment (1979)	£59.3 million
3rd Replenishment (1983)	£71.9 million
4th Replenishment (1987)	£95.1 million
5th Replenishment (1992)	£86.3 million
6th Replenishment (1997)	£67.0 million
7th Replenishment (2001)	£84.7 million
8th Replenishment (2005)	£114.1 million
9th Replenishment (2009)	£116.0 million
10th Replenishment (2013)	£200.0 million

7.7 The United Kingdom's contribution to the eleventh replenishment is lower than the contribution to the tenth replenishment because, as referred to in paragraph 7.4, donors are only contributing to grant resources at ADF 12 whereas at previous replenishments donors contributed to grants and concessional lending resources.

7.8 The ADB adopted the ADF 12 Resolution No. 382 on 15 July 2016.[2] A copy of the Resolution has been laid in the House of Commons library together with the ADF 12

[2]Link to Resolution: https://www.adb.org/documents/resolution-no-382-11th-replenishment-adf-and-6th-regularized-replenishment-tasf

Donors Report. In accordance with the Resolution No 382, the United Kingdom's contribution will be made in four annual instalments, each in the form of a non-negotiable, non-interest bearing promissory note expressed in pounds sterling and encashable on demand.

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 activities that are undertaken by small businesses.

12. Monitoring & review

12.1 The ADB publishes its annual reports and accounts in April, including on ADF. The reports are based on the ADB's own evaluation of its performance but in addition, the ADB's activities are independently evaluated by the Independent Evaluation Department (IED). ADB's financial data is audited by an external and independent auditor. ADB also publishes an annual Development Effectiveness Review which reports progress against specific performance indicators and separates ADB and ADF operations. The performance indicators are drawn from the Bank's Results Management Framework that sets out what ADB (and ADF) are expected to deliver, both in terms of development impact and improvements in operational performance. Donors and ADB management will also continue to review ADF implementation each year during the ADB's Annual Meetings, held in May. An ADB managed Mid-Term Review of ADF 12 is planned to take place during the fourth quarter of 2018.

12.2 The United Kingdom is represented on the Board of Governors by the Secretary of State for International Development, Priti Patel. The Executive Director representing the United Kingdom at the ADB also oversees the use of ADF resources as a member of ADB's Board of Directors.

12.3 Regular and effective monitoring, reviewing and lesson learning are critical to how DFID will measure the results of ADF 12 and demonstrate its value for money. DFID's monitoring will be undertaken through its own Annual Reviews in 2018-2020 and a final Project Completion Review of ADF 12 in 2021. 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 12 Mid Term Review, consultation with the United Kingdom 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 (MOPAN). A Logical Framework will be used to monitor progress against a set of performance indicators taken from the RMF and this plus the Annual and Project Completion Reviews, plus DFID's Business Case for this contribution will be published on DFID's website.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Adrian Miller at the DFID via e-mail: (adrian-miller@dfid.gov.uk or telephone 020 7023 0145.