EXPLANATORY MEMORANDUM TO

THE ASIAN DEVELOPMENT BANK (TENTH REPLENISHMENT OF THE ASIAN DEVELOPMENT FUND) ORDER 2013

2013 No. [XXXX]

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

2. Purpose of the instrument

This Instrument permits the Secretary of State for International Development, in her role as Governor for the United Kingdom at the Asian Development Bank ("ADB"), to make a payment of £200,000,000 towards the tenth replenishment of the Asian Development Fund ("ADF").

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 to the ADF[1]. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the ADF with commitment capacity for its continued lending on highly concessional terms and provision of grants to the poorest countries in the Asia and Pacific Region over the four-year period, 2013-2016.

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 he must make an order, which has Treasury approval and 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

[1] The UK has contributed funds through nine replenishments in addition to the initial contribution: the tenth replenishment is therefore called ADF XI by the ADB. The UK's previous contribution was authorised by Statutory Instrument 2009/1368.

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 Asian Development Bank (Tenth Replenishment of the Asian Development Fund) Order 2013 are compatible with the Convention rights.

7. Policy background

7.1 As stated above, the purpose of the present Order is to enable the Government to make a contribution to the tenth replenishment of the ADF of a sum of £200,000,000.

7.2 The ADB is a regional development bank established in 1965. Its purpose is to foster economic growth and co-operation in the region of Asia and the Pacific and to contribute to the acceleration of the process of economic development of its regional members, both collectively and individually. The major regional shareholders are Japan, the People's Republic of China, India, Australia, Indonesia and the Republic of Korea. The major non-regional shareholders are the USA, Canada, Germany and France. The UK was a founding member of the ADB and is a relatively small shareholder, with a shareholding of 1.93 per cent.

7.3 The ADB is structured along similar lines to the World Bank, with two main lending windows: the Bank which lends at near market rates of interest ('Ordinary Capital Resources'); and the ADF which lends on highly concessional terms and provides grants to the less developed regional members of the ADB. The ADF was established by the ADB in April 1973 and plays a key role in helping countries tackle poverty reduction and achieve the Millennium Development Goals (MDGs). ADF finance is available to 30 countries, 14 of which receive a mix of both ADF and ADB Ordinary Capital Resources funding (known as blend countries).

7.4 The ADF is financed from a number of sources including donor contributions and the repayment of past loans. It is replenished usually 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

Negotiations on the tenth replenishment of the ADF commenced in September 2011 and were concluded in March 2012. The replenishment was approved by the ADB's Board of Governors under Resolution 357. The total ADF XI funding outcome is $12.39 billion (approximately £8.2 billion as at 21 March 2012) for the period 2013-2016, with new donor contributions accounting for 37.5% of the total replenishment. The UK's pledge to contribute £200 million, an increase of 35% in US$ terms, raises our donor burden share from 5% for the previous replenishment (ADF X) to 5.4% for ADF XI.

7.5 The UK's increased contribution of £200 million will help the ADB to draw further on the ADF's comparative advantages; the focus on basic infrastructure and regional integration, effective partnerships with Asian recipient governments, and management's continued attention to reforms and emphasis on results and evaluation. Through a good track record of delivering real development outcomes, based on its size, partnership approach and Asian ownership, the ADF can make a significant contribution to poverty reduction and sustainable economic development by the poorer countries in the region.

7.6 Asia has seen strong economic growth and a reduction in income poverty over the last decade, despite the global economic slowdown over the last few years. However, while the regional income poverty rate has come down substantially, absolute numbers of poor have fallen far less due to population growth and growing inequality. More than 300 million people in ADF eligible countries still live on less than US$2 per day. In some ADF countries (e.g. Nepal, Laos and Papua New Guinea) the numbers of people living in extreme poverty have actually been increasing. There has also been insufficient progress with regards to the human development and non-income Millennium Development Goals ("MDGs"), especially primary education completion, access to water and sanitation, and child mortality.

7.7 ADF provides around $2 billion per year in concessional loans and over $1 billion per year in grants to the poorest countries in Asia and the Pacific. Major beneficiaries of grants include Afghanistan, Cambodia and Nepal, and substantial amounts are provided as loans to Bangladesh, Pakistan, Vietnam and other low income countries. The main ADF XI programmes will be in infrastructure (68%), with a focus on transport (24%), water and sanitation (24%) and energy (14%). Other sectors include education (10%), finance (5%) agriculture (7%) and health (2%). The ADB expects the following core development outputs and outcomes during ADF XI:

- Energy: 576,300 new households connected to electricity, 1,900 MW installed energy generation capacity, 2,300 km transmission lines installed or upgraded, 4,600 km distribution lines installed or upgraded.

- Climate change and renewable energy: Reduction of 1,191,000 tons of carbon dioxide equivalent greenhouse gas emissions (tCO2-equiv/year).

- Transport: 20,852,000 beneficiaries of road projects and 15,700 km of roads built or upgraded (highways, districts and rural roads).

- Water and sanitation: 562,000 new households served with water supply, 363,600 new households served with new sanitation and 626,000 hectares of land improved through irrigation services, drainage and flood management.

- Education: 2.57 million students benefiting from school improvement programmes, or direct support to, primary and secondary education, 211,200 teachers trained and 12,200 classrooms built or upgraded.

- Microfinance: 325,000 microfinance accounts opened or end borrowers reached and 57,600 loan accounts opened by small and medium-sized enterprises or end borrowers reached.

7.8 The ADB will deliver both direct development results through the ADF XI, and internal reforms agreed as part of the ADF Replenishment negotiations. These reforms will improve the way the ADF is run, and enable it to both to achieve the above results and make a more substantial contribution towards the MDGs in the longer term.

7.9 As part of the ADF XI Replenishment, 3% is allocated towards the fifth 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 with capacity development, knowledge building and project preparation.

7.10 The ADB adopted the ADF XI Resolution No. 357 on 26 July 2012. A copy of Resolution No 357 has been laid in the House of Commons library together with the ADF XI Donors Report. In accordance with the Resolution No 357, 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 An Impact Assessment has not been prepared for this instrument because there is no impact on business, charities or voluntary bodies in the United Kingdom.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 Under ADF XI, the ADB will continue to assess and report on progress in implementing the ADF programme through its yearly Development Effectiveness Reviews. ADF donors and ADB management will also continue to review ADF implementation each year during the ADB's Annual Meetings. An ADB managed Mid-Term Review of ADF XI will be held during the fourth quarter of 2014.

12.2 Regular and effective monitoring, reviewing and lesson learning are critical to how DFID will measure the results of ADF XI and demonstrate its value for money. DFID's monitoring will be undertaken through its own Annual Reviews and a final Project Completion Review of ADF XI. Evidence to inform the DFID reviews will be drawn from a number of sources, including the ADB's Development Effectiveness Review and the ADF XI Mid Term Review mentioned above, reports by the representatives of the UK on the ADB's Board, the ADB's Annual Reports and independent reports by the Multilateral Organisation Performance Network.

12.3 The UK Multilateral Aid Review 2011 ("MAR") of the ADF confirmed that the ADB plays a critical role in contributing to international and UK objectives and it was ranked as the top performing multilateral development bank. It has a clear strategic vision which supports a focus on results. The MAR identified some areas for further reform for the ADB to strengthen its performance further (particularly the one area where it was assessed as weak – improving its ability to address the needs of girls and women). Progress against these was taken into account in DFID's Business Case with a more extensive assessment provided in DFID's MAR Update to be published in July 2013.

12.4 In July 2012, the Independent Commission for Aid Impact ("ICAI") published their report on the effectiveness of DFID's partnership with the ADB (ICAI 2012; "DFID Engagement with the Asian Development Bank"). The report recognised in positive terms DFID's influence on the ADB's strategy, policy and internal reform processes and acknowledged that co-financed projects between DFID and the ADB are delivering substantial results on the ground.

13. Contact

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