EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL DEVELOPMENT ASSOCIATION

(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 International Development Association ("IDA") of the World Bank Group ("the Bank") from £1,691.71 million to an amount not exceeding £2,154.17 million for the purposes of the Multilateral Debt Relief Initiative (MDRI). This increase is pursuant to arrangements that have been made between IDA and Her Majesty's Government of the United Kingdom in accordance with Resolution No. 211 of the Board of Governors of the World Bank dated 21 April 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 IDA for the purposes of the MDRI. The amount of the United Kingdom's commitment to IDA for this purpose was previously increased 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 IDA with additional resources to preserve, after further debt stock cancellation for Heavily Indebted Poor Countries (HIPCs), its commitment capacity for lending on highly concessional terms to the poorest countries in the world over the period 2007-2028.

4.2 The proposed Order is 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

[1] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2008, S.I 2008/2086 reflects the UK's increased contribution

[2] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2011, S.I.2012/520

[3] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2014, S.I.2014/3056

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 International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2017 are compatible with the Convention rights.

7. Policy background

7.1 IDA is part of the World Bank Group. It aims to help the poorest countries reduce poverty by providing grants and highly concessional loans (no or low interest rates and long grace and maturity periods). Its policy framework focuses on economic growth; social sector support; protecting the environment for sustainable development; fostering recovery in post-conflict countries; and promoting trade and regional integration.

7.2 IDA was established in 1960 and has been funded from repayment of loans from its borrowers and by donor contributions. It is replenished every three years. Negotiations on the 18th replenishment 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[4].

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

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

debt relief initiative be reported separately to core replenishments, to ensure that they are clearly distinguishable.

7.6 The Board of Governors of the World Bank adopted Resolution No. 211 concerning the MDRI on 21 April 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 £591.57 million[5] which was subsequently approved under the International Development Association (Multilateral Debt Relief Initiative) Order 2006[6]. This was to be paid in regular instalments from 2007-2016. The United Kingdom contribution was later increased to £736.12 million under the International Development Association (MDRI) (Amendment) Order 2008[7] to cover the period until 2019 and further increased to £1,279.14 million under the International Development Association (MDRI) (Amendment) Order 2011[8] to cover the period until 2022. The last increase was under the International Development Association (MDRI) (Amendment) Order 2014[9] to cover the period until 2025 with an increase to £1,691.71 million.

7.7 The Eighteenth Replenishment Resolution (Resolution No.239) was adopted on 31st March 2017. A contribution of £3,336,000,000 to the International Development Association was agreed. This will be made up of a grant of £2,516,000,000 and £820,000,000 as a loan to IDA. Authorisation for these payments to the IDA is being sought by laying a separate Order before the House of Commons, the International Development Association (Eighteenth Replenishment) Order 2017, at the same time as this Order. Those funds are separate to the funds provided for the purposes of MDRI, though both will contribute to the results agreed for IDA 18.

7.8 As part of the IDA 18 Resolution that was adopted by the Governors in 2017, it was agreed that donors should provide unqualified MDRI commitments for the Eighteenth Replenishment disbursement period in order to maximise both the Bank's internal resources as well as the donor resources from the Eighteenth Replenishment. [10] This means it is necessary to update the cost estimates for debt cancellation by the IDA 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 £462.46 million to MDRI and extend the payment period up to and including 2028, coinciding with the end of the IDA 18 disbursement period. The final cost of MDRI donor compensation will depend on market exchange rates, the timing of when beneficiary countries complete the HIPC initiative and any changes in the IDA foreign exchange reference rates.

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 amounts agreed were reached through negotiations with the Board of Governors of IDA. The

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[5] The International Development Association (Multilateral Debt Relief Initiative) Order 2006 (S.I 2006/2323) permitted the Secretary of State to contribute to the IDA MDRI

[6] The International Development Association (Multilateral Debt Relief Initiative) Order 2006 (S.I 2006/2323)

[7] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2008 (S.I 2008/2086)

[8] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2011 (S.I 2012/520)

[9] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2011 (S.I 2014/520)

[10] Link to Resolution: http://documents.worldbank.org/curated/en/768971470993173182/International-Development-Association-IDA-Board-of-Governors-resolution-no-211-additions-to-resources-financing-the-multilateral-debt-relief-initiative

United Kingdom's contribution will be made in annual instalments, in accordance with the schedule agreed with IDA.

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 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. The World Bank provides annual reports and accounts in September, including on IDA. The reports are based on the World Bank's own evaluation of its performance. In addition, the World Bank's activities are independently evaluated by the Independent Evaluation Group (IEG). The World Bank's financial data is audited by an external and independent auditor.

12.2 The United Kingdom is represented on the World Bank Group Board of Governors by the Secretary of State for International Development, Priti Patel. Our Executive Director at the World Bank Group also oversees the use of IDA resources.

12.3 The World Bank has agreed to report against a Results Measurement System that sets out what we can expect IDA 18 to deliver, both in terms of development impact and improvements in operational performance. DFID monitor IDA's performance as part of its continuous engagement with the World Bank. A Logical Framework to monitor progress against a set of performance indicators will be available on DFID's public website. This is covered separately in the Explanatory Memorandum to the International Development Association (Eighteenth Replenishment) 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).