EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2020

2020 No. 1440

1. Introduction

1.1 This explanatory memorandum has been prepared by the Foreign, Commonwealth and Development Office (FCDO) and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 The Order permits Her Majesty's Government (the 'Government') to increase its payments to the International Development Association (the 'Association') from £2,154.17 million to an amount not exceeding £2,716.49 million for the purposes of the Multilateral Debt Relief Initiative (MDRI). This increase is pursuant to arrangements that have been made between the Association and the Government 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.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

3.2 The territorial application of this instrument is the United Kingdom.

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is the United Kingdom.

4.2 The territorial application of this instrument is the United Kingdom.

5. European Convention on Human Rights

5.1 James Duddridge, Parliamentary Under Secretary of State, Foreign, Commonwealth and Development Office, has made the following statement regarding Human Rights:

"In my view the provisions of the International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2020 are compatible with the Convention rights."

6. Legislative Context

6.1 The Order is being made to enable the Government to contribute a larger amount to the Association for the purposes of the MDRI. The amount of the United Kingdom's

commitment to the Association for this purpose was previously increased in 2008[1], 2011[2], 2014[3] and in 2017[4]. The purpose of this further increase in contributions, together with contributions pledged by other donors, is to provide the Association 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 2007-2031.

6.2 The Order is made under section 11 of the International Development Act 2002, which empowers the Government to make relevant payments to multilateral development banks where it is bound to do so. In order to make such a payment the Secretary of State for Foreign, Commonwealth and Development Affairs (the 'Secretary of State'), or a Minister acting on their behalf, must make an Order, which has HM Treasury approval and has been approved in draft by the House of Commons.

7. Policy background

What is being done and why?

7.1 The Association is part of the WBG. 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 The Association 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 19th replenishment concluded in December 2019.

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. It 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 HIPC initiative. The MDRI was agreed by G8[5] Finance Ministers at a meeting in London in June 2005. They proposed that 100% of the remaining debts owed by qualifying countries to the International Monetary Fund, the Inter-American Development Bank, the International Development Association and the African Development Fund (the Fund) would be cancelled. The cost of debt relief to creditors under the HIPC Initiative is currently estimated at US$76.2 billion, while the cost to the four multilaterals providing debt relief under the MDRI is estimated at US$43.3 billion (both in end-2017 present value terms).[6]

7.5 To ensure that the financing capacity of the 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 Association on an ongoing basis,

[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

[4] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2017, S.I.2017/1190

[5] G8 refers to the Group of Eight countries, comprising France, Germany, Italy, Japan, United Kingdom, United States, Canada and Russia.

[6] IMF, July 2019 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — statistical update'

compensating it 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 MDRI costs would 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[7] which was subsequently approved under the International Development Association (Multilateral Debt Relief Initiative) Order 2006[8]. This was to be paid in regular instalments from 2007-2016. The last increase was under the International Development Association (MDRI) (Amendment) Order 2017[9] to cover the period until 2028 with an increase to £2,154.17 million.

7.7 The Nineteenth Replenishment Resolution (Resolution No. 244) was adopted on 31st March 2020. A UK pledge of £3,062 million to the International Development Association was made. Authorisation for contributions not exceeding that pledge is covered under a separate Order, the 'International Development Association Nineteenth Replenishment) Order 2020'. Those funds are separate to the funds provided for the purposes of MDRI, though both will contribute to support to the Association's clients.

7.8 As part of the IDA19 Resolution that was adopted by the Governors in 2020, it was agreed that donors should provide unqualified MDRI commitments for the Nineteenth Replenishment disbursement period in order to maximise both the Bank's internal resources as well as donor resources from the Nineteenth Replenishment. 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 Order will allow the Secretary of State to commit an additional £562.32 million to MDRI and extend the payment period up to and including 2031, coinciding with the end of the IDA19 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 the Association. The United Kingdom's contribution will be made in annual instalments, in accordance with a schedule agreed with the Association.

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[7] 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

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

[9] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2017 (S.I 2017/1190)

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act.

9. Consolidation

9.1 Not relevant in the context of this instrument.

10. Consultation outcome

10.1 Not relevant in the context of this instrument.

11. Guidance

11.1 Not relevant in the context of this instrument.

12. Impact

12.1 No significant impact on business, charities or voluntary bodies is expected.

12.2 No significant impact on the public sector is expected.

12.3 No Impact Assessment has not been prepared for this instrument because no impact on business is foreseen.

13. Regulating small business

13.1 This legislation does not apply to activities that are undertaken by small businesses.

14. Monitoring & review

14.1 The approach to monitoring this legislation is to assess IDA's performance against the new Results Measurement System which was developed for IDA19 following consultation with WBG shareholders, including the United Kingdom. This sets out what we can expect IDA19 to deliver, in terms of both development impact and operational performance. IDA will host a Mid-Term Review of IDA19 with donors during the autumn of 2022 to assess progress. In addition, the WBG's activities are independently evaluated by the Independent Evaluation Group (IEG).

14.2 The United Kingdom is represented on the Board of Governors by the Secretary of State. The United Kingdom Executive Director to the WBG represents the United Kingdom and oversees the use of WBG resources as a member of the WBG Board of Directors.

14.3 Regular and effective monitoring, reviewing and lesson learning are critical to how FCDO will measure the results of IDA19 and demonstrate its value for money. FCDO's monitoring will be undertaken through its own Annual Reviews in 2021-22 and a final Project Completion Review in 2023. Evidence to inform the FCDO reviews will be drawn from a number of sources, including performance against IDA's Results Measurement System, the IDA19 Mid-Term Review, consultation with the UK Delegation to the World Bank, and feedback from FCDO country offices. Other sources of information include internal and independent evaluations and reports by organisations, such as the Multilateral Organisation Performance Network (MOPAN).

14.4 The Order does not include a statutory review clause because it has no regulatory effect on business.

15. Contact

15.1 Deborah McGurk at FCDO (deborah.mcgurk@fcdo.gov.uk) can be contacted with any queries regarding the Order.

15.2 Phil Stevens, Deputy Director for International Financial Institutions at FCDO can confirm that this Explanatory Memorandum meets the required standard.

15.3 James Duddridge, Parliamentary Under Secretary of State, at FCDO can confirm that this Explanatory Memorandum meets the required standard.