EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2023

2023 No. 73

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 His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2023 ('the Order') permits His Majesty's Government (the 'Government') to increase its payments to the International Development Association (the 'Association') from £2,716.49 million to an amount not exceeding £2,835.97 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 The attention of the Committee is drawn to the legislative context summarised in paragraph 6.2. The Instrument of Commitment has been deposited with the Association, so the Government is now bound to make the payment.

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 Andrew Mitchell, Minister of State (Minister for Development), 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 2023 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], 2017[4], and 2020[5]. The purpose of this further increase in UK 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 2007-2033.

6.2 The Order is made under section 11 of the International Development Act 2002 ("IDA"), which empowers the Government to make relevant payments to multilateral development banks where it is bound to do so. No obligation arises until the Government deposits an Instrument of Commitment (the "Instrument") with the Association which binds the United Kingdom to make the payment foreseen by article 3 of the International Development Association (Multilateral Debt Relief Initiative) Order 2006. This raises a technical issue about the Order making power in section 11 of the IDA. The power requires the Order to be approved in draft by the House of Commons, but the Secretary of State, with the approval of the Treasury, may make the Order only when the Government is bound to make the payment by the deposit of the Instrument. The draft Order was approved by the House on 31 October 2022 and the Instrument deposited on 19 December 2022, enabling the Order to be made in the form of the draft.

7. Policy background

What is being done and why?

7.1 The Association is part of the World Bank Group (WBG). The WBG is a global multilateral development bank. Its goals are to end extreme poverty and to promote shared prosperity. It is one of the largest and most effective development actors in the world. The size and global reach of the WBG makes it one of the most important partners to the United Kingdom for achieving its poverty reduction aims.

7.2 The Association provides grants, highly concessional loans (at zero or low interest rates and with long grace and maturity periods), and advisory support to the poorest and least credit-worthy countries globally. As the costs of doing this outweigh the returns on its loans, the Association needs to be replenished every three years by donors.

7.3 The Association was established in 1960 and has been funded by repayment of loans from its borrowers, donor contributions and market borrowing. It is normally replenished by donors every three years. The Twentieth Replenishment was concluded one year early in December 2021 to allow significant volumes of ongoing support to be made available to Association countries to mitigate the impacts of the pandemic and to support recovery.

7.4 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.

[1] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2008, S.I 2008/2086
[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.2017/1195
[5] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2020, S.I.2020/1440

7.5 Under the MDRI, countries receive additional debt relief, above what is provided under the HIPC initiative. The MDRI was agreed by G8[6] Finance Ministers at a meeting in London in June 2005. They proposed that 100% of the remaining debts owed by qualifying countries to the Association, the International Monetary Fund, the Inter-American Development Bank and the African Development Fund would be cancelled. The cost of debt relief to creditors under the HIPC Initiative is 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)[7].

7.6 To ensure that the financing capacity of the Association 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, 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 the Association through each replenishment. 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.

7.7 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.([8]) Under the terms of that Resolution the United Kingdom undertook to pay £591.57 million[9] which was subsequently approved under the International Development Association (Multilateral Debt Relief Initiative) Order 2006[10]. This was to be paid in regular instalments from 2007-2016. Increases since then to cover the period until 2031 have resulted in an increase to £2,716.49 million[11].

7.8 The Twentieth Replenishment Resolution (Resolution No. 248) was adopted on 31 March 2022.([12]) A UK pledge of £1,414 million to the International Development Association was made (Twentieth Replenishment). Authorisation for contributions not exceeding that pledge is covered under a separate draft Order, the International Development Association (Twentieth Replenishment) Order 2022. Those funds are separate to the funds provided for the purposes of MDRI, though both will contribute to support to the Association's clients.

7.9 As part of Resolution No. 248, it was agreed that donors should provide unqualified MDRI commitments for the Twentieth Replenishment disbursement period. This Order will allow the Secretary of State to meet our existing MDRI commitment by extending the payment period up to and including 2033, coinciding with the end of the IDA20 disbursement period. This will add £119.48 million to the total MDRI payment ceiling.

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

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

([8]) Resolution No. 211 is also available online at https://documents1.worldbank.org/curated/en/768971470993173182/pdf/107820-BR-Box396272B-PUBLIC-IDA211-AdditionstoResources-FinancingtheMultilateralDebtRelifInitiative.pdf.

[9] 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

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

[11] The International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2020(S.I.2020/1440

([12]) Resolution No. 248 is available online at https://documents1.worldbank.org/curated/en/099841004042214431/pdf/IDU0071008f30a7bf04ecd0b4e00311325799dc2.pdf.

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

8. European Union Withdrawal and Future Relationship

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

12.2 There is no, or no significant, impact on the public sector.

12.3 A full Impact Assessment has not been prepared for this instrument because no significant direct impact on businesses in the UK is foreseen.

13. Regulating small business

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

14. Monitoring & review

14.1 The approach to monitoring of this legislation is to assess the Association's performance against the latest results measurement system, which was developed for the Twentieth Replenishment following consultation with donors, including the United Kingdom. This sets out what we can expect the Twentieth Replenishment to deliver, both in terms of development impact and operational performance. The Association will also host a Mid-Term Review of IDA20 with donors in late 2023 to assess progress. In addition, the WBG activities are independently evaluated by the Independent Evaluation Group.

14.2 The United Kingdom is represented on the Board of Governors by the Secretary of State. The United Kingdom's Executive Director on the World Bank Group Board of Directors oversees the use of WBG resources.

14.3 Regular and effective monitoring, reviewing and lesson learning are critical to how FCDO will measure the results of the Twentieth Replenishment and demonstrate its value for money. FCDO's monitoring will be undertaken through its own Annual Reviews in 2023 and 2024, and a final Project Completion Review in 2025. Evidence

to inform the FCDO reviews will be drawn from multiple sources, including performance against the Association's Results Measurement System, the IDA20 Mid-Term Review, consultation with the UK Executive Director on the World Bank Group Board, and feedback from the FCDO posts.

14.4 Other sources of information include internal and independent evaluations and reports by organisations, such as the Independent Commission on Aid Impact (ICAI), and the Multilateral Organisation Performance Network. ICAIs' May 2022 review of World Bank's IDA found it to represent good value for money.

14.5 The instrument does not include a statutory review clause as it has no regulatory effect on business.

15. Contact

15.1 Sam Fell at FCDO (sam.fell1@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 Andrew Mitchell, Minister of State (Minister for Development), Foreign Commonwealth and Development Office can confirm that this Explanatory Memorandum meets the required standard.