EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (SEVENTH REPLENISHMENT) ORDER 2007

2007 No. 3547

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

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

2. Description

2.1 The proposed Order permits the Secretary of State to make a further contribution of £27,725,000 to the International Fund for Agricultural Development ("the Fund") in accordance with Resolution 141/XXIX on the Seventh Replenishment of the Fund's Resources ("the Resolution") dated 16 February 2006.

2.2 Additionally, the Order permits the Secretary of State to make payment of sums required to redeem any non-interest bearing and non-negotiable notes or other obligations that may be issued or created by him as a result of the arrangements that are to be made by the Government of the United Kingdom and the Fund regarding the payment of the £27,725,000, although it is intended that payment is to be in cash.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 The draft Order is to be made pursuant to section 11 of the International Development Act 2002. Section 11 applies when the Government becomes bound to make a relevant payment to a multilateral development bank. The section goes on to provide that the Secretary of State can only make the relevant payment to the bank once the payment has been approved by an Order made by him with Treasury approval. But the Secretary of State cannot make such an Order until a draft of it has been laid before and approved by the House of Commons.

3.2 The purpose of an Order made under section 11 is to allow the Secretary of State to make the relevant payment when the Government is bound to do so. However, the Government will not become bound to make the relevant payment until it has deposited with the Fund an Instrument of Contribution. As section 11 only applies when the Government is bound to make the relevant payment and, at present, it is not so bound, it was previously considered that this raised the technical issue of whether the Secretary of State could properly present such a draft Order to the House when the Government was not yet bound to make the payment the Order dealt with and thus, at that time, had no power to make the Order. At the same time though, the clear purpose of laying the draft Order before the House was to secure the approval of the House before the deposit of the Instrument of Contribution.

3.3 As a result of this technical issue, the previous practice was to seek Parliamentary approval for the draft Order before the Government became bound, but with a Ministerial undertaking being given that no Order would be made in terms of the draft until, on deposit of the necessary Instrument of Contribution, the Government in fact became bound to make the payment. For example, the Committee considered this issue in respect of the previous draft International Fund for Agricultural Development (Sixth Replenishment) Order 2003 in its Fourth report (HC 126 iv 2002-03) and concluded that there was no technical reason for the House not to approve the draft order but that it should merely be aware that it was acting, as on occasions in the past, on a Ministerial undertaking that the Order would not be made until the Government was bound.

3.4 While the above was the previous practice, the Committee will note that the usual wording of Article 3 of the Order, dealing with relevant payments, has been modified to refer to the Secretary of State being enabled to make the relevant payments "in accordance with section 11 of the International Development Act 2002". Such additional wording has the effect that the Secretary of State is not empowered to make the payments under the Order until, as provided for by section 11 of the Act, he is bound to do so by virtue of the Instrument of Contribution having been duly deposited. It is therefore considered that this additional wording removes the earlier need for any separate Ministerial undertaking to be given.

4. Legislative Background

4.1 The proposed Order is being made to enable the Secretary of State to contribute further (the UK has contributed funds on six previous occasions) to the Fund. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the Fund with commitment capacity for its continued provision of grants and lending on highly concessional terms to developing countries. As stated above, 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.

6. European Convention on Human Rights

6.1 Hilary Benn, the Secretary of State for International Development, has made the following statement regarding Human Rights:

In my view the provisions of the International Fund for Agricultural Development (Seventh Replenishment) Order 2007 are compatible with the Convention rights.

7. Policy background

7.1 The Department for International Development is responsible for leading the United Kingdom's contribution to promoting development and the reduction of poverty. The Department's overall objective is the elimination of world poverty. This objective was set out in the 1997 White Paper "Eliminating World Poverty: A Challenge for the 21st Century", in the 2000 White Paper "Eliminating World Poverty: Making Globalisation Work for the Poor" and in the 2006 White Paper: "Eliminating World Poverty: Making Governance Work for the Poor." The Department delivers its international development funds through a combination of bilateral programmes, and contributions to various international financial institutions, such as the Fund.

7.2 The Fund, a specialized agency of the United Nations, was established as an international financial institution in 1977 and has focused exclusively on rural poverty reduction since its inception. Unlike other international financial institutions, which have a broad range of objectives, the Fund has a specific mandate to 'enable the rural poor to overcome their poverty'. Working in partnership, it aims to achieve this through a framework of six strategic objectives to ensure that poor rural people have better access to, and the skills and organisation they need to take advantage of: (i) natural resources, especially secure access to land and water, and improved natural resource management and conservation practices; (ii) improved agricultural technologies and effective production services; (iii) a broad range of financial services; (iv) transparent and competitive markets for agricultural inputs and produce; (v) opportunities for rural off-farm employment and enterprise development; (vi) local and national policy and programming processes.

7.3 In line with the Fund's special focus on the alleviation of rural poverty in developing countries, the bulk of its lending is on highly concessional terms, with no interest charge and a 0.75% service charge to be repaid over 40 years. As a share of the Fund's cumulative lending portfolio, highly concessional loans now represent 72.6%. The Fund's loan and grant commitments come from three sources: contributions from members, loan reflows and investment income.

7.4 The Fund began operations with initial contributions of US$ 899 million in 1977, and has had six Replenishments of its resources, this being the seventh. Since starting operations in 1978, the Fund has invested US$9.5 billion and generated a further US$16.1 billion in co-financing contributed by partners. About two thirds of contributions have been provided by the industrialized Member States, and one third by the developing member states. The Fund's programme of work for 2006 was US$ 556 million.

7.5. The United Kingdom has contributed to the initial funding and subsequent six replenishments as follows:

Initial Contribution	£18,000,000
1st Replenishment:	£12,901,127
2nd Replenishment:	£9,226,517
3rd Replenishment:	£11,305,433
4th Replenishment:	£13,586,773
5th Replenishment:	£18,531,000

6th Replenishment:	£19,707,000[1]
Total	**£103,257,850**

7.6 As stated above, the purpose of the present Order is to enable the Government to make a contribution to the Seventh Replenishment of IFAD of sums totalling £27,725,000.

7.7 There are two elements to this £27,725,000 figure – additional contributions of £19,407,500 and an additional incentive contribution of £8,317,500. Under the arrangements in the Resolution, the United Kingdom has pledged to make both payments, the second being a contingent contribution on the Fund achieving deliverables that are included in the Fund's Action Plan for Improving its Development Effectiveness in the areas of: UN Reform; Improved Portfolio Performance; Human Resource Management; and Knowledge Management and Innovation. In accordance with the arrangements, both contributions are included in the Instrument of Contribution.[2]

7.8 The Governing Council of the Fund adopted the Resolution on 16 February 2006, copies of which have been placed in the House of Commons Library. In accordance with the Resolution, the United Kingdom contribution will become effective following the deposit with the Fund of an appropriate Instrument of Contribution and payments will be made in three cash instalments of: £9,703,750 in 2008, £9,703,750 in 2009 and £8,317,500 in 2010.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies

9. Contact

9.1 Further information concerning the proposed instrument can be obtained from Elizabeth Nasskau at the Department for International Development via email (e-nasskau@dfid.gov.uk) or telephone (+39 06 6840091)

Department for International Development
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[1] The contribution to the Sixth Replenishment consisted of £19,707,000 plus a complementary contribution of £6,569,000 towards the Fund's Innovation Mainstreaming Initiative for a total of £26,276,000.

[2] A similar contingent contribution formed part of the UK's contribution to the Fourteenth Replenishment of the International Development Association. See International Development Association (Fourteenth Replenishment) Order 2006, SI 2006/1071 and para 7.6 of the Explanatory Memorandum.