EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (MULTILATERAL DEBT RELIEF INITIATIVE) ORDER 2006

2006 No. 2323

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 further contributions not exceeding £591.57 million to the International Development Association of the World Bank Group between 2006 and 2016, pursuant to arrangements that have been made between the International Development Association and Her Majesty's Government of the United Kingdom in accordance with Resolution No. 211 of the Board of Governors of the World Bank.

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 Bank regarding the payments.

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 a relevant payment when the Government is bound to do so. The deposit of an Instrument of Commitment with the International Development Association binds the Government to make the relevant payment. As section 11 only applies when the Government is bound to make the relevant payment and, at present, it is not so bound, this raises the technical issue of whether the Secretary of State may properly present the draft Order to the House when the Government is not yet bound to make the payments the Order deals with and thus, as yet, has no power to make the Order.

3.3 The seeking of Parliamentary approval for the draft Order before the Government is bound is the usual practice in these cases. The Committee has considered this issue previously (for example in respect of the draft International Fund for Agricultural Development (Sixth Replenishment) Order 2003 in its Fourth report (HC 126-iv 2002-03)) and has concluded that there is no technical reason for the House not to approve the draft Order but that it should merely be aware that it is acting, as on occasions in the past, on a Ministerial undertaking that the Order will not be made until the Government is bound. Accordingly the Secretary of State gives his undertaking that no Order will be made in terms of the draft until, on deposit of the Instrument of Commitment, the Government is bound to make the payment. The purpose of the Secretary of State laying the draft Order before the House is to secure the approval of the House before the deposit of the Instrument of Commitment.

3.4 The Department respectfully submits that the contents of the draft Order do not require any departure from the Committee's established approach to the exercise of the powers under section 11.

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 fifteen previous occasions) to the International Development Association. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the International Development 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 periods 2006-2008 and from 2009-2016. 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. Extent

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 Development Association (Multilateral Debt Relief Initiative) Order 2006 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", and reaffirmed in the 2000 White Paper "Eliminating World Poverty: Making Globalisation 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 International Development Association.

7.2 The International Development Association is part of the World Bank Group, the overarching goal of which is to reduce poverty and improve living standards by supporting sustainable growth and investment in people. It aims to help the poorest countries reduce poverty by providing grants and "credits" for projects or programmes. "Credits" are loans at zero interest with a 10-year grace period and maturities of 35 to 45 years. The International Development Association's policy framework focuses on macroeconomic growth; social sector support; protecting the environment for sustainable development; fostering recovery in post-conflict countries; and promoting trade and regional integration.

7.3 The International Development Association receives repayments of principal and interest due on outstanding credits from its borrowing members. Its resources are also replenished on a regular basis, generally every three years, by contributing members. Negotiations on the most recent replenishment concluded in February 2005 and resulted in £19.5 billion being made available by donors for development assistance during the IDA-14 period (2005-2008). The UK announced a core contribution to the total replenishment of £1.33 billion, with a further £100 million linked to progress by the Bank on harmonisation and conditionality. In addition, the International Development Association also receives some transfers of surplus net income from the International Bank for Reconstruction and Development within the World Bank Group.

7.4 Exceptional debt relief in the form of cancellation of some outstanding debt to the International Development Association has been agreed under the Heavily Indebted Poor Countries Initiative for qualifying borrowing member countries.

7.5 When they met in London in June 2005, the G8 Finance Ministers proposed that debt stock cancellation be extended so that 100% of the remaining debts owed by qualifying countries to the International Monetary Fund, the International Development Association and the African Development Fund of the African Development Bank would be cancelled. The costs of this debt stock cancellation at the International Development Association and the African Development Fund in terms of foregone debt service payments would be met in full by donors, thus maintaining the funds' ability to continue to lend on concessional terms. The Multilateral Debt Relief Initiative will therefore provide considerable additional resources to all poor countries to accelerate their progress towards the Millennium Development Goals (MDGs). When

fully implemented, over $50 billion in debt stock at the International Development Association, the International Monetary Fund and African Development Fund will be cancelled for HIPC countries, and about $1 billion a year will be freed up for spending on poverty reduction in 2007, rising to $1.7 billion by 2010.

7.6 The Multilateral Debt Relief Initiative has been discussed by the Boards of Directors of each institution and received broad support, including from developing countries. The International Development Association and International Monetary Fund components were agreed at the 2005 Annual Meetings of the World Bank and International Monetary Fund. International Monetary Fund debt relief for 19 countries was delivered in January 2006. The approval process is underway at the African Development Bank.

7.7 Under the Multilateral Debt Relief Initiative, countries will receive this 100% irrevocable debt cancellation when they complete the HIPC Initiative. There will be no further conditions attached. Countries that have already completed the HIPC Initiative will need to demonstrate that they have maintained their commitment to poverty reduction and good macro-economic and public expenditure management. The allocation of additional donor resources through the existing Performance Based Allocation systems will maintain a strong incentive for good policy and performance. In addition, World Bank, African Development Bank and International Monetary Fund staff will continue to monitor and report on the overall efficiency of public expenditure as well as on progress in reducing corruption and enhancing transparency in recipient countries.

7.8 To ensure that the financing capacity of the International Development Association and African Development Fund is not reduced, the UK and other contributing members have committed to cover the costs of debt cancellation for the duration of the loans. These funds will be additional to the resources the UK had already agreed for these institutions as part of the recent replenishments of the funds. G8 Finance Ministers have agreed that in future replenishment rounds the costs of the debt relief initiative be reported separately to ensure that they are clearly distinguishable.

7.9 As stated above, the purpose of the present Order is therefore to enable the Government of the UK to make additional contributions not exceeding £591.57 million to the International Development Association between 2006 and 2016. This amount was reached through negotiations with the International Development Association's Board of Governors.

7.10 The International Development Association adopted the International Development Association Additions To Resources: Multilateral Debt Relief Initiative (Resolution No. 211) on 21 April 2006. A copy of this Resolution has been laid in the House of Commons library. In accordance with Resolution No. 211, the United Kingdom's contribution will be made in annual instalments, each in the form of a non-negotiable, non-interest bearing promissory note expressed in pounds sterling and encashable on demand.

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 Nicola Jenns at the Department for International Development via e-mail (n-jenns@dfid.gov.uk) or by telephone (020 7023 0832).

Department for International Development
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