EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2011

2012 No.520

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. 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 £736.12 million to an amount not exceeding £1,279.14 million for the purposes of the Multilateral Debt Relief Initiative (MDRI) (previously increased in 2008 from £591.5 million). 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 the Select Committee on Statutory Instruments

3.1 None

4. Legislative Background

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]. 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 2007-2022. 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 becomes 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.

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[1] The IDA (Multilateral Debt Relief Initiative) Order 2006 (S.I. 2006/2323) permitted the Secretary of State to contribute to the MDRI, but was amended by the IDA (Multilateral Debt Relief Initiative) (Amendment) Order 2008 (S.I. 2008/2086) to reflect the UK's increased contribution.

6. European Convention on Human Rights

6.1 Andrew Mitchell, 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 2011 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 macroeconomic growth; social sector support; protecting the environment for sustainable development; fostering recovery in post-conflict countries; and promoting trade and regional integration.

7.2 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, IDA and the African Development Fund of the African Development Bank would be cancelled. The costs of this debt stock cancellation at the IDA 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 MDRI was established in 2006 and provides considerable additional resources to all poor countries to accelerate their progress towards the Millennium Development Goals (MDGs). In total, over $50 billion in debt stock at IDA, the International Monetary Fund and African Development Fund will be cancelled when the proposal is fully implemented.

7.3 Under the MDRI, countries receive 100% irrevocable debt cancellation when they complete the HIPC initiative. The allocation of the additional concessional lending made possible through MDRI using the existing Performance Based Allocation systems will maintain a strong incentive for good policy and performance. In addition, the 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.

7.4 To ensure that the financing capacity of the IDA 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 latest replenishments of the funds. In 2006 G8 Finance Ministers agreed that in future replenishment rounds the costs of the debt relief initiative be reported separately to ensure that they are clearly distinguishable.

7.5 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 UK undertook to pay £591.57 million which was subsequently approved under the International Development

Association (Multilateral Debt Relief Initiative) (Amendment) Order 2008[1]. This was to be paid in regular instalments from 2007-2016. The Resolution also provided that the IDA would reflect changes in actual and estimated costs of MDRI debt forgiveness by making adjustments to donor contributions to the MDRI every three years in line with replenishments to the IDA. The UK contribution was later increased to £736.12 million under the International Development Association (Multilateral Debt Relief Initiative) Order 2008, in order to cover the period up to and including 2019.

7.6 Negotiations on the most recent replenishment round (IDA 16) were concluded in December 2010. A final agreement was reached on a $49.3 billion (£30.5 billion) funding package and the UK's contribution over the next three years is £2,664 million. Authorisation for that payment to the IDA is being sought by laying a separate Order before the House of Commons, the International Development Association (Sixteenth Replenishment) Order 2011, at or around the same time as this Order. Those funds are separate to the funds provided for the purposes of MDRI.

7.7 As part of the IDA 16 Replenishment discussions that were adopted by the Board in March 2011, it was agreed that donors should provide unqualified MDRI commitments for the Sixteenth Replenishment disbursement period in order to maximise both the Bank's internal resources as well as the donor resources from the Sixteenth 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. This draft Order will allow the Secretary of State to commit an additional £543.02 million to MDRI and in practical terms will extend the payment period up to and including 2022, coinciding with the end of the IDA 16 disbursement period. In addition, the UK commitment has changed as a result of slippage of projected HIPC decision and completion points, and the effects of applying the IDA 15 foreign exchange reference rates. The final cost of MDRI donor compensation will depend on market exchange rates, the timing of when beneficiary countries complete the HIPC initiative and various IDA replenishment rates.

7.8 As stated above, the purpose of the present Order is therefore to enable the Government of the UK to increase its MDRI contributions. The amounts agreed were reached through negotiations with the Board of Governors of IDA. The UK'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 An Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

[1] S.I. 2008/2086

11. Regulating Small Businesses

11.1 This legislation does not apply to small businesses in the UK.

12. Monitoring and Review

12.1 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 UK is represented on the Board of Governors by the Secretary of State for International Development, Andrew Mitchell. 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 16 to deliver, both in terms of development impact and improvement s 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 annual review will be available on DFID's public website.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Matt Easton at the Department for International Development via e-mail (M-Easton@dfid.gov.uk or by telephone (020 7023 0165).

Department for International Development
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