

**EXPLANATORY MEMORANDUM TO**  
**THE INTERNATIONAL DEVELOPMENT ASSOCIATION**  
**(MULTILATERAL DEBT RELIEF INITIATIVE) (AMENDMENT) ORDER 2008**

**2008 No. 2086**

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 increases the amount that the Secretary of State is permitted to pay to the International Development Association of the World Bank Group from £591.57 million to an amount not exceeding £736.12 million for the purposes of the Multilateral Debt Relief Initiative (MDRI). This increase is pursuant to arrangements that have been made between the International Development Association (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.

- 2.2 Additionally, the Order permits the Secretary of State to continue 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 proposed Order is to be made under section 11 of the International Development Act 2002. Whilst many replenishment payments to multilateral development banks and a previous payment for the purpose of the MDRI have been authorised under this section, this, along with the draft African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2008 which has also been laid for parliamentary approval is the first time it is being used to amend a previous Order. Article 2(a) simply increases the amount that may be paid by the Secretary of State to the IDA. Article 2(b) provides that the Secretary of State shall make the payments in accordance with section 11. The previous practice was for the Secretary of State to give an undertaking not to make the Order until he was bound to make the payment. The addition of the amendment obviates the need for this undertaking. The addition of the words "in accordance with section 11 of the International Development Act 2002" was first made in the International Fund for Agricultural Development (Seventh Replenishment) Order 2007 (SI. No.3457). The explanatory memorandum to that Order sets out this point in more detail.

## **4. Legislative Background**

4.1 The proposed Order is being made to enable the Secretary of State to contribute further (the UK has contributed previously to the IDA for the purposes of the MDRI<sup>1</sup>) to IDA. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the IDA with additional resources to preserve, after further debt stock cancellation for Heavily Indebted Poor Countries (HIPC)s, its commitment capacity for lending on highly concessional terms to the poorest countries in the world over the period 2007-2019. The Order is made under section 11 of the International Development Act 2002 which 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 Douglas Alexander, 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 2008 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 21<sup>st</sup> Century", and reaffirmed in the 2000 White Paper "Eliminating World Poverty: Making Globalisation Work for the Poor". In 2006, the Department published its third White Paper "Eliminating World Poverty: Making Governance Work for the Poor" which reiterated this objective which set out the forward agenda for the Department over the next five years. The Department delivers its international development funds through a combination of bilateral programmes, and contributions to various international financial institutions, such as the IDA.

7.2 The IDA 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 IDA'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.

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<sup>1</sup> The International Development Association (Multilateral Debt Relief Initiative) Order 2006 (2323)

7.3 The IDA receives repayments of principal and interest due on outstanding credits from its borrowing members. Its resources are replenished on a regular basis, generally every three years, by contributing members. In addition, the IDA also receives some transfers of surplus net income from the International Bank for Reconstruction and Development and International Finance Corporation within the World Bank Group.

7.4 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 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 implemented in 2006 and provides 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 IDA, 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.

7.5 Under the MDRI, countries receive 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.

7.6 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 recent 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.

7.7 The MDRI was implemented in 2006 in accordance with Resolution No. 211 entitled "International Development Association Additions to Resources: Multilateral Debt Relief Initiative" of the Board of Governors of the World Bank dated 21 April 2006. A copy of which was 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) Order 2006<sup>2</sup>. 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

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<sup>2</sup> S.I, 2006/2323

debt forgiveness by making adjustments to donor contributions to the MDRI every three years. Such adjustments were intended to occur in conjunction with the regular replenishments. Negotiations on the most recent replenishment round (IDA 15) concluded in December 2007 and resulted in £20.8 billion being made available by donors for development assistance during the new disbursement period (2009-2019). Replenishments are agreed every 3 years with disbursement periods covering 10 years. It is important that donors provide unqualified commitments for MDRI for the same replenishment period. The UK announced a core contribution to the total replenishment of £2.134 billion. Authorisation for this payment is being sought by an Order, the International Development Association (Fifteenth Replenishment) Order 2008, at or around the same time as this Order. These funds are separate to those provided for the purposes of MDRI.

7.8 Under these negotiations IDA Deputies reaffirmed the urgent need to provide additional donor contributions for the MDRI replenishment of SDR 4.1 billion (the SDR or Special Drawing Right is an international reserve asset used by the World Bank and IMF. Its value is based on a collection of key international currencies), so as to cover IDA's debt relief costs due to the MDRI during the IDA 15 disbursement period (2009 to 2019) as agreed under the MDRI. The IDA notified all donors of these adjustments on 8 May 2008 and requires that IDA's donors take all necessary steps in successive replenishments to provide firm financing on a rolling basis. The IDA can only make operational commitments on the basis of 'unqualified' commitments by donor countries. An unqualified commitment can only be given by DFID once it has parliamentary approval for the amount to be committed.

7.9 As stated above, the purpose of this Order therefore is 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 United Kingdom's contribution will be made in annual instalments, in accordance with the schedule agreed with IDA.

7.10 Estimated MDRI costs fell significantly over the first decade of MDRI implementation (2007 – 2016), by some SDR 522 million, followed by another reduction of SDR 314 million over the next three years (2017 – 2019). The total reduction in estimated MDRI costs over the combined IDA 14 and IDA 15 disbursement period is SDR 835 million, thereby lowering the volume of donors' financing commitments for IDA 15. These reductions are driven primarily by the exclusion of debt relief estimates for the Kyrgyz Republic, the postponement of projected decision and completion point dates for a number of pre-decision and decision points HIPC's, and the effects of applying the IDA 15 foreign exchange reference rates. Overall, DFID's unqualified and qualified commitments for MDRI over the period from 2007-2044 have reduced in total from £2779.95 million to £2599.83 million.

## **8. Impact**

8.1 An 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 Derek Longley at the Department for International Development via e-mail ([d-longley@dfid.gov.uk](mailto:d-longley@dfid.gov.uk)) or by telephone (020 7023 0901).

Department for International Development  
May 2008