

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Sixth Delegated Legislation Committee

DRAFT INTERNATIONAL DEVELOPMENT
ASSOCIATION (SEVENTEENTH REPLENISHMENT:
ADDITIONAL PAYMENTS) ORDER 2016

Monday 12 September 2016

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Friday 16 September 2016

© Parliamentary Copyright House of Commons 2016

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chair: MR PETER BONE

- | | |
|--|--|
| Davies, Byron (<i>Gower</i>) (Con) | † Perkins, Toby (<i>Chesterfield</i>) (Lab) |
| † Day, Martyn (<i>Linlithgow and East Falkirk</i>) (SNP) | † Sandbach, Antoinette (<i>Eddisbury</i>) (Con) |
| † Fernandes, Suella (<i>Fareham</i>) (Con) | † Solloway, Amanda (<i>Derby North</i>) (Con) |
| † Foxcroft, Vicky (<i>Lewisham, Deptford</i>) (Lab) | † Stevenson, John (<i>Carlisle</i>) (Con) |
| † Griffiths, Andrew (<i>Lord Commissioner of Her Majesty's Treasury</i>) | † Stewart, Rory (<i>Minister of State, Department for International Development</i>) |
| † Hodgson, Mrs Sharon (<i>Washington and Sunderland West</i>) (Lab) | † Tugendhat, Tom (<i>Tonbridge and Malling</i>) (Con) |
| † Mackinlay, Craig (<i>South Thanet</i>) (Con) | † Turner, Karl (<i>Kingston upon Hull East</i>) (Lab) |
| † Malhotra, Seema (<i>Feltham and Heston</i>) (Lab/Co-op) | † Zahawi, Nadhim (<i>Stratford-on-Avon</i>) (Con) |
| † Mathias, Dr Tania (<i>Twickenham</i>) (Con) | Leoni Kurt, <i>Committee Clerk</i> |
| † Osamor, Kate (<i>Edmonton</i>) (Lab/Co-op) | † attended the Committee |

Sixth Delegated Legislation Committee

Monday 12 September 2016

[MR PETER BONE *in the Chair*]

Draft International Development Association (Seventeenth Replenishment: Additional Payments) Order 2016

4.30 pm

The Minister of State, Department for International Development (Rory Stewart): I beg to move,

That the Committee has considered the draft International Development Association (Seventeenth Replenishment: Additional Payments) Order 2016.

It is a great pleasure to serve under your chairmanship, Mr Bone. I am here to ask the Committee to support an additional £350 million loan to the International Development Association which, as colleagues know, is the part of the World Bank that was set up in 1960 particularly to target the world's poorest nations. I imagine that Committee members will have three questions: first, why have we chosen IDA; secondly, why have we chosen £350 million; and, thirdly, why are we making the payment now as opposed to at any other point?

Why the IDA? As hon. Members will be aware, the World Bank has been a partner of the British Government since we helped to establish it in the 1940s. It is a very well established development organisation. It is not perfect, and the Committee may have an opportunity to discuss some of the bank's challenges, but in practice, having had a long relationship with it and conducted some serious audits, we are convinced that its 12,000 people, working in 127 offices, have a critical mass of expertise and a proven record of delivery. We saw that in Vietnam in the 1970s and 1980s, in Yugoslavia in the 1990s, and most recently during the global financial crisis of 2008-09.

Why are we giving this money now? We have put a great deal of pressure on the World Bank—as, indeed, has the world—during recent humanitarian crises. We have seen the Ebola crisis and the earthquake in Nepal, and of course most recently we have been dealing with Syrian refugees and in particular education provision in Lebanon and Jordan. In every regard, we have put a lot of pressure on the World Bank to deliver.

Why this amount? The loan will support the World Bank's projects in a range of countries. IDA works right across the 77 poorest countries in the world, and its programmes are tailored to individual countries. For example, it has done a great deal of work in Nepal on reconstruction since the earthquake. In Bangladesh, it focuses on extreme poverty, while in Burma it is doing good work on public financial management. It has been able to increase from 8% to 10% the tax revenue that the Government of Burma raise, which equates to around £2.5 billion a year of additional income for the Burmese Government, and that can be spent on development. We are focused in particular on concrete outcomes, however. The money that we will put in will allow us to provide life-saving vaccines for around 200 million more

children, microfinance loans for around 1 million more women, and access to clean water for around 32 million people.

Although the World Bank is a capable institution, as I said at the start of my speech, it is not perfect, so along with this money, we will push ahead with reforms in three key areas. First, we will encourage the bank to work much more in fragile and conflict-afflicted states, which is Department for International Development jargon for countries teetering on the edge of war or those in which there is an active conflict. In the past, we have had to put pressure on the bank to work in Burundi and Mali. We believe that more could have been done in South Sudan and Yemen, and we are working closely with the bank to ensure that it keeps country offices on the ground and really delivers in those locations.

Secondly, we believe that more could be done on responsiveness and efficiency, and that loans could be more quickly disbursed. Getting below the two-year timeframe that the bank is currently pursuing would really help in addressing urgent issues in fragile states.

Finally, we believe that private sector investment could be better mobilised. We have been proud to work with the private sector on, for example, port developments in east Africa—in places such as Dar es Salaam—and power generation projects in Nigeria, but we think that more could be done in that regard.

However, in sum, with those provisos, having looked closely with our team at this particular loan, we believe that it is a good, sensible use of UK taxpayers' money that will contribute to the global goals we all hold dear. I commend the order to the Committee.

4.35 pm

Kate Osamor (Edmonton) (Lab/Co-op): It is a pleasure to serve under your chairmanship for the first time, Mr Bone. I thank the Minister for outlining the statutory instrument before us today. It is right that Parliament has the opportunity through this Committee to scrutinise the order in detail as it pertains to a substantial level of investment.

I would like further information on the UK's pledge of a concessional loan, which the Government are making for the first time ever as part of the donation to IDA. Will the Minister provide further detail, either today or subsequently, about his assessment of other nations' progress on and timescales for fulfilling their commitments under the agreement? I am happy to confirm that the Labour party does not intend to divide the Committee on the order.

4.36 pm

Nadhim Zahawi (Stratford-on-Avon) (Con): It is a pleasure to serve under your chairmanship, Mr Bone. The Minister refreshingly outlined what the Committee is considering in plain English and I thank him for that. He spoke of the three questions that we would ask, but there is a fourth. Given the mounting pressure that we are putting on the World Bank and the IDA, what proportion of the five or 10-year budget does this £350 million represent, and which other countries are contributing the balance?

4.37 pm

Seema Malhotra (Feltham and Heston) (Lab/Co-op): I thank the Minister and shadow Minister for their speeches. The Minister highlighted IDA's important work. When I visited Nepal earlier this year, I certainly saw the importance of that work and of infrastructure financing and investment. He said that there had been a shift to channelling more funds towards fragile and conflict-affected states, but will he confirm whether that involves moving funds away from health and education infrastructure in other countries? What is being done to ensure that we balance our responsibilities to other nations? I understand the multilateral nature of this matter but, bearing in mind that negotiations will be continuing about the next phase of post-2017 funding, may we have a debate in the House before December on the Government's priorities going forward and the impact that our support will have?

4.38 pm

Tom Tugendhat (Tonbridge and Malling) (Con): It is a pleasure to serve on the Committee. My hon. Friend the Minister will have seen from his work before joining the House that one of the problems in conflict zones and in fact in pre-conflict zones, which he mentioned, is the possibility of fraud and the abuse of large sums of taxpayers' money. We are talking about an enormous gift from the British people, so I would be grateful if he would outline some of the areas in which the British people can have confidence that the money is being properly spent in areas that they would see as justified.

4.38 pm

Martyn Day (Linlithgow and East Falkirk) (SNP): It is a pleasure to serve under your chairmanship, Mr Bone. I thank the Minister for his clear explanation of the order. I just state for the record that I will be happy to support it.

4.39 pm

Craig Mackinlay (South Thanet) (Con): It is a pleasure to serve under your chairmanship, Mr Bone. What has been the experience of the previous, quite substantial transfers over many years through these revolving and soft loans? Have they been repaid, or have substantial amounts been written off as irrecoverable?

4.39 pm

Rory Stewart: How foolish of me to think that there were only three questions, given that I have just been hit by five very good additional questions. I thank the Scottish National party and the whole Committee for their support for this order and for moving ahead with this important work in international development.

With your permission, Mr Bone, I will take each of the five questions in turn. The shadow Minister asked the very important question of why we are making a loan, because this actually is not a grant, but a loan. IDA itself is a loan-making body that makes a range of concessional loans and grants. We feel it is right, given that the association will in turn be lending this money and receiving the principal back, that the British taxpayer should also be able to lend this money and receive the principal back in 20 years' time. That will not affect the results. Results will still be achieved by the loan, but the principal will come back to us.

My hon. Friend the Member for South Thanet asked how many of the loans are written off. We often make concessional loans to very fragile countries, and some of them do not come right. That is why we have a combination of loans and grants. We would expect our loans to be repaid, but this £350 million that we are putting in is within the context of a total package of about £2 billion of UK support, of which the overwhelming majority is in the form of grants.

One reason why this happens is that we encourage IDA to go into areas where the private sector will not wish to invest, so we expect that a certain number of the loans will not come good, but that relates to the question asked by my hon. Friend the Member for Tonbridge and Malling. We have to be hugely careful about fraud because the sums that we are talking about are enormous. The state capacity in some of the countries in which we operate is limited, and there are also other problems, such as security problems, which can make it quite difficult for our staff to get out on the ground and directly see projects.

Seema Malhotra: The Minister is responding to an important point. May I add to the list of concerns those states where there might be corruption, human rights abuses or dictatorships that could be supported by our funding? We need to be mindful of how we handle such difficult situations.

Rory Stewart: The questions asked by the hon. Lady and my hon. Friend the Member for Tonbridge and Malling are central to this subject. This is, in the end, UK taxpayers' money that comes from hard-working people. Those people believe in trying to deal with humanitarian crises and in helping the world's poorest people, but they have an absolute right to expect that their hard-won money is being used in the right way.

We have a series of different mechanisms in place to try to deal with that. A multilateral aid review happens every three years and the independent commission reports directly to Parliament. We have our own internal audit team, and we also do annual reviews. It is possible to look at the development tracker on our website and to see our annual review, published in April, specifically of the IDA programme. We gave the programme an alpha-plus in the previous review, but note three particular areas of gender, climate change and the issue of fragile and conflict states regarding which we think it could be better. One reason why we work so closely with and are one of the larger contributors to the World Bank is that it has a very good track record—better than that of almost anyone else—in trying to address issues of corruption, transparency and predictability in the management of its financial processes.

Toby Perkins (Chesterfield) (Lab): I support entirely the contributions that we are making to support some of the world's poorest. Given that this is a loan, will the Minister clarify whether the amount that we are lending comes out of the spending of 0.7% of gross domestic product to which the Government and we are committed? If so, when that money comes back in, does it effectively increase the amount that has been spent, because we are counting money as a loan, rather than grant spending?

Rory Stewart: The hon. Gentleman asks a very important question. The answer is that the sum absolutely does count against the 0.7%. This is agreed with OECD Development Assistance Committee rules, which allow for this because the impact of our loan is immediate in terms of our development effect. However, two complicated accounting techniques are used—one by the World Bank and one by us—to allow for the difference between our concessional loan and the amount that we would be able to get on the open market. The Treasury will then lay off against our own budgets the gap between what we anticipate that we will receive back in 20 years' time and the costs at the moment. To be clear, the amount does come directly out against the 0.7%.

We are not the only country doing this. In fact, the practice is increasingly the norm, particularly with loan-making bodies such as IDA. The French, Japanese and Chinese do the same thing. When we loan to an organisation that is going to make a loan on, it makes sense in development terms, and also for the UK taxpayer, to make sure that something comes back to us in 20 years' time.

I will finish on the question posed by my hon. Friend the Member for Stratford-on-Avon. He asked what percentage of the overall budget this contribution represents, and the answer is that it is a relatively modest amount. It will be about 1.3% of IDA's total spend over what is called the IDA 17 period. The UK contributes about 13% to the IDA budget, which is roughly in line with the overall scale of our contributions to development activities worldwide. The contribution is larger than that to something such as the Asian Development Bank, where we put in about 5%, and that reflects our respect for and our greater confidence in the World Bank, and also the fact that in return for the money, we intend to get the reforms and the leverage that the taxpayer requires. I commend the statutory instrument to the House.

Question put and agreed to.

4.46 pm

Committee rose.