

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT INTERNATIONAL DEVELOPMENT  
ASSOCIATION (MULTILATERAL DEBT RELIEF  
INITIATIVE) (AMENDMENT) ORDER 2017

DRAFT AFRICAN DEVELOPMENT FUND  
(MULTILATERAL DEBT RELIEF INITIATIVE)  
(AMENDMENT) ORDER 2017

DRAFT INTERNATIONAL DEVELOPMENT  
ASSOCIATION (EIGHTEENTH REPLENISHMENT)  
ORDER 2017

*Monday 20 November 2017*

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**The Committee consisted of the following Members:**

*Chair:* MR NIGEL EVANS

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|--|--|
| † Bardell, Hannah ( <i>Livingston</i> ) (SNP)                            | † Stewart, Rory ( <i>Minister of State, Department for International Development</i> ) |
| † Blackman-Woods, Dr Roberta ( <i>City of Durham</i> ) (Lab)             | † Throup, Maggie ( <i>Erewash</i> ) (Con)  |
| † Bruce, Fiona ( <i>Congleton</i> ) (Con)                                | † Tomlinson, Michael ( <i>Mid Dorset and North Poole</i> ) (Con)                       |
| † Elmore, Chris ( <i>Ogmore</i> ) (Lab)                                  | Twigg, Derek ( <i>Halton</i> ) (Lab)   |
| † Evennett, David ( <i>Lord Commissioner of Her Majesty's Treasury</i> ) | † Vara, Mr Shailesh ( <i>North West Cambridgeshire</i> ) (Con)                         |
| † Godsiff, Mr Roger ( <i>Birmingham, Hall Green</i> ) (Lab)              | Yasin, Mohammad ( <i>Bedford</i> ) (Lab)   |
| † Keegan, Gillian ( <i>Chichester</i> ) (Con)                            | † Zahawi, Nadhim ( <i>Stratford-on-Avon</i> ) (Con)                                    |
| Mahmood, Shabana ( <i>Birmingham, Ladywood</i> ) (Lab)                   | Lauren Boyer, Sean Kinsey, <i>Committee Clerks</i>                                     |
| Robinson, Mr Geoffrey ( <i>Coventry North West</i> ) (Lab)               | † <b>attended the Committee</b>  |
| † Spelman, Dame Caroline ( <i>Meriden</i> ) (Con)                        |  |

## Second Delegated Legislation Committee

Monday 20 November 2017

[MR NIGEL EVANS *in the Chair*]

### Draft International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2017

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 (Multilateral Debt Relief Initiative) (Amendment) Order 2017.

**The Chair:** With this it will be convenient to consider the draft African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2017 and the draft International Development Association (Eighteenth Replenishment) Order 2017.

**Rory Stewart:** It is a great pleasure to serve under your chairmanship, Mr Evans. The orders address two separate matters: a replenishment for the IDA—the International Development Association, which is part of the World Bank—and ensuring we deal with debt. With your permission, I shall deal with the two separately.

On the first matter, the draft International Development Association (Eighteenth Replenishment) Order 2017 will put £3.865 billion into the IDA. As right hon. and hon. Members will be aware, the World Bank is effectively divided into four parts. It was begun in the 1940s as an institution for lending to places such as France after the second world war, but different sections of it developed over time. The IDA was established to make concessional loans and grants to poorer countries, after it was discovered in the 1950s that the old instruments of the International Bank for Reconstruction and Development, which gave loans at commercial rates, were not suitable for the poorest countries in the world.

It is the IDA that the draft order will replenish. The World Bank Group includes two other institutions that the Committee is not debating today: the Multilateral Investment Guarantee Agency, which helps to make loans in the private sector; and the International Finance Corporation, a development bank that lends money, much as CDC does, and makes debt and equity investments in the private sector.

Why are we proposing an IDA replenishment, and why have we specified this sum of money? We believe strongly—I hope there is cross-party consensus on this—that the World Bank is a very serious and impressive institution. We are proud to have been a founder member of it, and to have partnered with it over the past 70 years. It is not a perfect institution—it has flaws, like any other—but anyone looking for an organisation with a critical mass of technical expertise and real understanding of some of the toughest development challenges in the world, particularly relating to infrastructure, public financial management and tax

receipts, cannot do better than the World Bank. That is not just a claim; it is sustained by my Department's multilateral development review, which marked the IDA very highly.

Let me give some examples of what the IDA does, and what we hope it will do, with the money. A single investment in public financial management in Burma increased the Burmese Government's tax take by 2%, bringing in nearly £1.5 billion more a year for the Burmese Exchequer. That dwarfs what we put in through development aid, and is a really good example of how technical assistance can transform things.

We have specified this sum of money because it equates to approximately 13% of the IDA replenishment. That is roughly the same proportion that we have contributed over the past 15 years; almost every replenishment is at that level. That is the replenishment that we feel is appropriate, given the size of the British economy, and it is the amount of money we feel we should put in, as a founder member of the IDA. That does not mean, however, that we are not asking tough questions and using our money, leverage and position on the board to demand improvements. Recently, we have particularly focused on improvements and on encouraging the IDA to go to fragile, conflict-affected states that it has been reluctant to get into. We have encouraged it to focus on refugees and migrants.

**Mr Shailesh Vara** (North West Cambridgeshire) (Con): My hon. Friend has raised an important point, but I want some clarification. I accept that the money has to be given, and is used for good purposes, but to what extent is there monitoring of funds once they have left the bank? That is ever more important for us, given our local funding challenges, and media scrutiny of where the money ends up. If we are to increase our contribution, it is important that how the money is used is monitored much more carefully as well. What assurances can the Minister give me that that is being done?

**Rory Stewart:** The answer is that we focus very hard on this and improve all the time. As my hon. Friend points out, every year we realise more and more the complexities and risks in such investment. In the case of the IDA and the World Bank, there is often a very complex chain of intermediaries before the investment hits the ground. That means we need to look at everything: the tenders; the way that contracts are let; and implementation on the ground. We need to go beyond the numbers to look at the quality on the ground. The figures that the IDA and the World Bank have achieved on the ground are absolutely staggering. They are responsible for providing a water supply to nearly 100 million people, and for providing education to nearly 200 million children. The numbers that they are able to achieve are absolutely astonishing.

Where we need to get better, and what we are working on much more closely with the bank, is making sure that we focus on quality. What are the children actually learning in school? Do they emerge fully literate? Do they have the skills we want, rather than us just getting somebody into a seat? Secondly, can we get the bank to be more innovative? Can we get it to think more about economic development, or how to work for the private sector? Getting the right relationship between public risk capital and the private sector is critical, because it is the private sector that is likely to know whether the

business that is being invested in is genuinely sustainable. Will those jobs be there in five or 10 years' time? Are people being trained in a skill for which there is a market, as opposed to what has often happened in the past, whereby vocational training programmes and investments have been directed towards an idea of where the market is, without a real understanding of the business environment?

**Fiona Bruce** (Congleton) (Con): Encouragingly, the Minister has talked about investing more funds in fragile and conflict-affected states. Can he tell us the five top countries in which the most funds are invested, if not the specific amount?

**Rory Stewart:** I cannot promise to do that off the top of my head. The broad answer is that the World Bank divides into two halves. With regard to the IBRD and non-concessional loans, which are not what we are talking about today, some of those go to middle-income countries; we would expect them to be the larger middle-income countries. The IDA, which we are talking about, and which is the concessional arm, will focus on the lower-income countries. We would expect large amounts of that money to go to Nigeria, Ethiopia and Pakistan; they are very large examples of non-middle income country recipients. That is where we want to direct increasing amounts of the IDA's funds.

The other two statutory instruments are about multilateral debt relief. I remind everybody that many of the poorest countries in the world ended up in huge amounts of debt—very heavily indebted. By the 1990s, many of the poorest countries of the world were spending most of their taxation revenue on trying to pay off debts accumulated by previous Governments. By the late 1990s, we realised that probably the most useful thing the developed world could do was forgive that debt, giving countries the chance to get off the ground again and to start to spend money on the provision of services—education and health in particular. It was the former right hon. Member for Kirkcaldy and Cowdenbeath who drove that process through, and at the Gleneagles summit in 2005 we, along with other countries, committed to playing our role in debt relief.

The Committee will not be surprised to hear that the amount we have put into debt relief in the international community is again around the 13% to 14% margin; that represents both our commitment to aid and the size of our economy. These statutory instruments are part of ongoing obligations determined by a previous Government in 2005, but continued by that Labour Government and by the coalition Government. Now, our Government continue to fulfil these long-standing obligations that a British Government took on, with the rest of the international community, to forgive the debt of these states.

That is not enough in and of itself. We have also put new processes in place to ensure that as those countries get money again, it is invested back in education and health, rather than going to building up more debts. We need to be particularly careful, because since the 1970s and 1980s when they accumulated the debts, the nature of international finance has changed. Increasing numbers of private sector actors in China, India and the City of London could be lending large amounts of money—there could be eurobond offers, for example, from the City of

London—without the kind of conditionality that would have come with the previous debts. That could lead to countries again accumulating a large debt burden that it would be difficult for us to deal with.

**Nadhim Zahawi** (Stratford-on-Avon) (Con): The Minister mentioned that our contribution to the IDA is about 13%. Will he put that into perspective? Are we top five? Top three? Who is No. 1?

**Rory Stewart:** The answer is that we are currently No. 1. That does not mean that we are the No. 1 international development donor in the world—countries such as the United States and Germany give more development aid than us—but in terms of our contribution to this mechanism, and our focus on the poorest countries in the world, Britain is leading the way in the world, and that gives us a very special influence over the use of the funding.

There are three statutory instruments before us. The first is about replenishing the World Bank's IDA instrument, in line with the House's practice for nearly 15 years. That money is directed towards some of the poorest people in the world, through probably the most effective multilateral development institution in the world. The multilateral debt relief instruments come out of the 2005 Gleneagles agreement, in line with the actions of the Labour Government, the coalition Government and this Conservative Government, to ensure that some of the most heavily indebted, poorest countries in the world are able to get a clean start.

4.44 pm

**Dr Roberta Blackman-Woods** (City of Durham) (Lab): It is a pleasure to serve again under your chairmanship, Mr Evans. I thank the Minister for so clearly outlining the nature of the orders, and the overall purpose of the funds. I will go through the orders, taking the International Development Association (Multilateral Debt Relief Initiative) (Amendment) Order 2017 first, the African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2017 second, and the International Development Association (Eighteenth Replenishment) Order 2017 third.

I am grateful to the Minister for outlining the IDA order. We all agree with the policy background to these funds. At their heart, they are about trying to help the poorest countries to reduce poverty by providing grants and concessional loans. The policy framework focuses on economic growth, social sector support and protecting the environment—supporting sustainable development, forestry recovery and the like. That is a policy agenda we can all sign up to.

The explanatory note says that the final amount, which may be up to the limit of an additional £462.46 million, was

“reached in agreement with the board of governors of the IDA.”

I ask the Minister for further information—he can give it to us today, or I am happy to put this request in writing—about the nature of those negotiations. How was that amount agreed, and with whom? Who are the other donors who are contributing to the cost of the multilateral debt relief initiative? We also need clarification about the extent of the UK's burden share, and whether it is likely to increase with the amount that has been given.

[*Dr Roberta Blackman-Woods*]

We do not want to divide the Committee on any of these orders, but it would be good to have that additional information.

Moving on to the African Development Bank multilateral debt relief initiative, I am extremely grateful to the Minister for outlining the order to the Committee and for allowing us to scrutinise it in detail. The additional £66.8 million that the order allows is to be disbursed through to 2029. It is clearly an important part of the multilateral debt relief initiative and the overall African Development Bank strategy. The Labour Opposition welcome the ongoing support for the bank. Again, I would like to request further information from the Minister about the relationship and strategy with the African Development Bank. DFID's latest multilateral aid review in 2016 noted that, despite many strengths within the African Development Bank, its capacity constraints are preventing it from achieving its full potential. In several areas—"leave no one behind", "performance in fragile states", "human resources" and "accountability"—the bank scored only adequate. It was noted that the bank's move of headquarters to Abidjan led to a particular set of challenges. First, will the Minister assure the Committee that he is confident that, since 2016, the bank has been headed in the right direction to overcome those challenges?

Secondly, the order notes that, although the UK is only a 1.753% shareholder in the bank, it contributes 10.467% of the burden share for the upcoming replenishment, which the Committee will discuss later. I also note that the 2016 multilateral aid review says that, in 2016, the UK contributed 14% of the burden share for replenishment. What opportunities do the MDRI and the replenishment offer give the UK to push for further progress on reforming the bank as an institution? If our share of replenishment is going up each time, is that giving us more power to press the bank to improve? Again, we are not going to divide the Committee on that issue.

I am grateful to the Minister for outlining the International Development Association (Eighteenth Replenishment) Order 2017. Again, I have a request for more information, either today or subsequently. How will the association use this contribution as leverage to borrow from the market, especially as this can happen for the first time under this replenishment? It has been suggested that market borrowing will constitute a third of the IDA's overall financing in IDA18, and that for each £1 of grant finance that the UK and other donors put in, the association is now able to deliver £3 to its clients. How will that market borrowing work in practice? How can we be sure that it will not impact on, or divert from, the central mission of the IDA, which is, as I said earlier, to help the world's poorest countries? Is it possible to say how much of the UK contribution will be leveraged in such a way?

Are the Government seeking reform of and improvement to the IDA or the wider World Bank Group as part of this replenishment? I note DFID's growing approach of making multilateral funding contributions conditional on reform progress, and that the most recent multilateral aid review scored the World Bank as good, rather than very good, in the areas of "partnership", "leave no one behind", "performance in fragile states" and "accountability", where there is certainly room for

improvement. Given that we are increasing the amount of funding through the orders, it would be useful to know that the Government are pressing the World Bank on these matters. Again, I do not intend to divide the Committee on the order.

4.51 pm

**Rory Stewart:** The hon. Lady raised three specific questions: first, on the multilateral debt relief to the IDA; secondly, on the multilateral debt relief to the African Development Bank; and thirdly, on leverage of, and improvements to, the IDA. I very much welcome the decision not to divide the Committee. For 15 or 20 years, this has been a cross-party, consensual issue on which we have worked together. It is a rarity in politics when both sides of the House agree on what we are trying to do—in this case, to tackle challenges in some of the poorest and most fragile countries in the world. Although we may occasionally have discussions about how best to achieve that end, I think we agree on the end, and broadly agree that the World Bank, with which we are generally proud to be partnered, is a good partner in an imperfect world.

On the first question, about how we set the amount of money that goes into the IDA through the MDRI, that calculation was made at the G7 summit in Gleneagles in 2005. The UK agreed to a 13.82% imputed burden share on the total amount of debt that was owed to the International Development Association. The variation that the Opposition have noted in the statutory instrument represents an attempt to calculate shifts in the exchange rate and shifts in interest rates, but there will be no change—and there has been no change since 2005—to the UK's 13.82% imputed burden share.

The second question was about improvements to the African Development Bank. We absolutely agree that there are some challenges within the African Development Bank; our multilateral development review pointed that out. Those challenges will perhaps be more relevant to the next Statutory Instrument Committee, in which we will talk about the replenishment of the bank, rather than the debt—the more technical process of simply wiping off past debt that these heavily indebted poor countries ran up.

It is true that we have identified particular problems in moving from Tunis to Abidjan, which has affected recruitment. That is why, when we come to that statutory instrument, the Opposition will discover that we are not putting the same amount of money into the African Development Bank that we did in the last replenishment; we will in fact be reducing it by 25%. That is one of the ways in which we are attempting to reflect some of our concerns around its performance. Provided it meets the performance indicators, we hope that we will be able to increase that funding in future years, but there is a reduction, representing the fact that we feel that there have been some challenges recently.

That brings us to the IDA. We are absolutely focused on making sure that the IDA focuses on the world's very poorest. Generally speaking, the IDA has a good record on that. In answer to the question of my hon. Friend the Member for Congleton, it is true that alongside Pakistan, Bangladesh, Nigeria and Ethiopia, which I mentioned as major recipients, there is an outlier: Vietnam. We expect increasingly to take money out of lower-middle-income countries and put it towards the poorest countries in the world. That is a very good challenge for us.

Our current leverage in the bank's structure is about 1:8—in other words, we put in about 15% of the total 100%. The £1 to £3 market borrowing will be a small, experimental part of the IDA's innovative funding. Obviously, in so far as we can crowd in private sector money, that is a good idea, but as the shadow Minister pointed out, that cannot be at the cost of the bank's mission. The point of the IDA is concessional lending to the world's poorest people. If the money can come in purely from the private sector, there is no point to the IDA at all, and we cannot allow an attempt to drag in private sector money to distort the bank's objectives towards what the private sector would be doing in the first place. We are very focused on global public goods—in particular, bringing them more firmly into the poorest countries of the world—and on fragile and conflict-affected states and reform that focuses more on economic development.

**Dr Blackman-Woods:** I have one, brief follow-up question for the Minister. Will he keep the House updated on leverage, how it is working and the outcome of that leveraged income? That would be helpful.

**Rory Stewart:** We would be absolutely delighted to do that, and the shadow Minister put her finger on a critical

issue: we have to make absolutely sure that any additional leveraged money fulfils our global public goods purposes, and does not distort the prime objective of the fund.

*Question put and agreed to.*

**DRAFT AFRICAN DEVELOPMENT FUND  
(MULTILATERAL DEBT RELIEF  
INITIATIVE) (AMENDMENT) ORDER 2017**

*Resolved,*

That the Committee has considered the draft African Development Fund (Multilateral Debt Relief Initiative) (Amendment) Order 2017.—(*Mr Rory Stewart.*)

**DRAFT INTERNATIONAL DEVELOPMENT  
ASSOCIATION (EIGHTEENTH  
REPLENISHMENT) ORDER 2017**

*Resolved,*

That the Committee has considered the draft International Development Association (Eighteenth Replenishment) Order 2017.—(*Mr Rory Stewart.*)

4.57 pm

*Committee rose.*

