PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT AFRICAN DEVELOPMENT BANK (FURTHER PAYMENTS TO CAPITAL STOCK) ORDER 2015

Monday 14 September 2015

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Friday 18 September 2015

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chair: Mr Christopher Chope

† Alexander, Heidi *(Lewisham East)* (Lab)
† Cooper, Rosie *(West Lancashire)* (Lab)
† Double, Steve *(St Austell and Newquay)* (Con)
† Evennett, Mr David *(Lord Commissioner of Her Majesty's Treasury)*
† Fuller, Richard *(Bedford)* (Con)
† Grady, Patrick *(Glasgow North)* (SNP)
† Green, Damian *(Ashford)* (Con)
† Lee, Dr Phillip *(Bracknell)* (Con)
† Leslie, Charlotte *(Bristol North West)* (Con)
† Malthouse, Kit *(North West Hampshire)* (Con)
† Nokes, Caroline *(Romsey and Southampton North)* (Con)
Paisley, Ian *(North Antrim)* (DUP)
Pearce, Teresa *(Erith and Thamesmead)* (Lab)
† Shuker, Mr Gavin *(Luton South)* (Lab/Co-op)
Smith, Mr Andrew *(Oxford East)* (Lab)
† Smith, Cat *(Lancaster and Fleetwood)* (Lab)
† Swayne, Mr Desmond *(Minister of State, Department for International Development)*
† Vickers, Martin *(Cleethorpes)* (Con)

John-Paul Flaherty, *Committee Clerk*

† attended the Committee

Fourth Delegated Legislation Committee

Monday 14 September 2015

[MR CHRISTOPHER CHOPE *in the Chair*]

Draft African Development Bank (Further Payments to Capital Stock) Order 2015

4.30 pm

The Minister of State, Department for International Development (Mr Desmond Swayne): I beg to move,

That the Committee has considered the draft African Development Bank (Further Payments to Capital Stock) Order 2015.

Mr Chope, it is always a pleasure to benefit from the stewardship and guidance of the Chair, but particularly so when you are in it.

The African Development Bank provides economic development for the continent of Africa. Africa is in great want of jobs to provide livelihoods for its people. One of the principal impediments to economic growth and the development of those jobs is a chronic shortage of infrastructure, which creates a barrier to trade. Equally, poor governance often gets in the way of commercial activity and trade.

We believe that the focus of the Department for International Development matches very well the focus of the African Development Bank, with the importance that it places on private sector-led economic development, to breaking down barriers to trade and to governance. The bank's recent success has often been ascribed to its president, Mr Kaberuka, who stood down in May. The Minister of State, Department for International Development, my right hon. Friend the Member for Welwyn Hatfield (Grant Shapps), was privileged to attend the annual general meeting and see his successor, Dr Adesina, elected with our support from a strong field of eight candidates. We believe that he will make an excellent president of the bank. He is a former Agriculture Minister who has worked for the World Bank and has experience in the United States and west Africa. He speaks several languages and we believe that he has the focus, energy and enterprise to build on the achievements of his predecessor.

The African Development Bank promotes development in two different ways. The first is through the African Development Fund, providing grants to countries that have a poor credit rating. We hold a 14% burden share in that fund, having committed some £600 million in the period 2014 to 2016. The order is not concerned with that fund. The other way in which the bank makes development possible is by providing loan capital to countries and private enterprises with a good credit rating through its ordinary capital subscribed by members of the bank. In its book for 2014, it made UA 4.5 billion in new loans available, of which 55% were for infrastructure.

The bank maintains a ratio between regional and non-regional members of 60:40. The last general capital increase was in 2011, when the capital subscribed rose by 200% to take account of the international financial crisis. There now arises an opportunity for us to acquire more capital in the bank. First, several non-regional countries were unable to take up their subscriptions to the 2011 increase, so 1,453 shares are now available to us. Equally, the ratification of the membership of South Sudan has altered the 60:40 ratio. To maintain it at 60:40, more shares are available to the non-regional players. Our allocation is 3,157 shares, only 6% of which have to be paid in. The rest are callable capital, a contingent liability for holding for which we have received the permission of the Chief Secretary to the Treasury.

Of the 6% that have to be paid in, taking the shares that are now available to us, the amount that we would have to pay by the 2 October deadline, which we will meet if the order is passed, is some £2.76 million, but the order asks for just shy of £8 million. We are asking for more because we estimate that, as previously, several countries will not be able to make the very tight deadlines to acquire their shares. We want to have the flexibility within the even tighter deadlines that then follow to be able to purchase those additional shares.

Why do we want to do it? The simple fact is that we currently have the smallest shareholding of the G7 members, at 1.7% of the shares available. That does not buy us a lot of influence. Over the longer term, we want to significantly increase our shareholding in order to increase our influence over the bank's operations. Secondly, we regard the bank as very good value for money. Our £2.8 million subscription for the shares that we have been definitely allocated will give rise to £43 million of additional lending, which means £43 million towards creating jobs, so it is good value for money. Of course, it will have the side effect of reinforcing our support for Dr Adesina and the new regime at the bank.

I hope I have persuaded the Committee that there are good reasons for proceeding with the order.

4.37 pm

Mr Gavin Shuker (Luton South) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Chope.

We should be proud of Britain's history under successive Governments of providing funding to multilateral investment organisations such as the African Development Bank that work to tackle poverty and engender sustainable economic growth. Members may not realise that we first joined the African Development Fund in 1973 and the African Development Bank when membership was extended to non-regional countries in 1983, so Britain has an important long-standing relationship with the organisation.

In Europe, we take for granted the ready availability of transport networks and public utilities such as running water, energy and telecommunications. Most of our businesses know that they can access finance in order to expand. Those are fundamental prerequisites for growth and prosperity. Without them, public services and education are held back, entrepreneurial drive and talent risk being wasted and the outlook for a country's development is bleak. Development is dependent upon getting the essential infrastructure right. Investing in the sort of projects the Minister outlined pays dividends several times over. For that reason, we will seek to support him in taking the order forward.

Since beginning operations, the African Development Bank has mobilised financial resources for more than 4,500 projects, with contributions totalling more than

$118 billion. The assistance the bank provides comes in many forms: lending for infrastructure projects; funding for programmes and studies in agriculture, education, industry and governance; and technical assistance and policy advice. Its commitment to sustainable growth is of particular relevance to our age as we come face to face with the spectre of climate change, and as the world comes together to agree the sustainable development goals. That is why it is encouraging to see the bank's support of clean, renewable energy projects in countries across Africa and its emphasis on green growth.

The bank's recently published African competitiveness report makes it abundantly clear that Africa is a growing continent with real potential for even further growth if the necessary conditions for prosperity are in place. Over the past 15 years, the continent's GDP growth as a whole has averaged more than 5% a year, and the growing consumer markets in many countries herald further possibilities.

I turn briefly to the detail of the order, and I have a few questions for the Minister. Britain's contributions to multilateral development banks are among the smartest investments in international development that we can make. The African Development Bank is a positive, African-led vehicle for development lending, and that is why we will not oppose the Government's plans to increase their shareholding in the bank by taking advantage of newly available shares under the special capital increase and shares forfeited from the sixth general capital increase.

We agree with the Government's wish to add to the UK capital stock by purchasing the additional shares allocated to us, with a paid-in value of £2.7 million. As well as allowing the bank to provide more development lending, that increased investment will lend greater weight to Britain's vote on issues facing the bank. That is desirable given the UK's historically small shareholding in the bank, as it will bring us closer to the G7 nations that have a significantly larger shareholding—our European partners in Germany, at 4.1%, and in France, at 3.8%.

We also acknowledge that, if Britain were to refuse the opportunity of subscribing to the shares or miss the deadline, the UK's shareholding would decrease. Both for the good of the bank and to maintain Britain's influence, we agree that that should be avoided. We note that the share purchase will give rise to a contingent liability of some £43.3 million in shares, which could be called for should the bank find itself in serious difficulty, but given the bank's strong triple A credit rating—something that even the UK has not managed to maintain throughout the past five years—and its history of never having called in such shares, we acknowledge that the contingent liability is highly unlikely to turn into a loss. It is therefore our judgment that we should support the order.

However, as the Minister explained, in addition to calling for the approval of a further £2.8 million of investment in capital stock, the order seeks permission for further shares to be purchased, up to a total of some £8 million, should they become available. Although in principle we would support the Government making further payments to increase our capital investment and our influence on the board of the bank, the Committee ought to consider the potential for a much higher contingent liability of some £124.6 million as a consequence of purchasing those additional shares.

Increasing the UK's shareholding by the full £7.95 million sought in the order would leave the UK's total contingent liability with the African Development Bank at about £1.1 billion. What assessment has the Minister made of the likelihood that members that have been unable to meet the October deadline will forfeit shares reissued under the sixth GCI? I would also welcome any estimate that has been made of the number of shares that might realistically become available.

I understand from the Department's written statement of 14 July that the sum of £7.95 million represents the total amount of reissued GCI shares available to all shareholders, as well as the UK's special capital increase allocation. That means that the Department is giving itself a significant degree of leeway and suggests that the Minister believes that, as he said earlier, a substantial number of shares may be forfeited before the October deadline. To reassure the Committee that the Department's request for that flexibility is justified, I would welcome any additional detail he might have, including which countries may forfeit.

Whenever we use taxpayers' money, we must always consider whether it is being spent or invested wisely. Even when projects and organisations are working well, we must always bring our scrutiny to bear. Improving results for the world's poorest people and ensuring value for money mean that we must monitor, evaluate and look for improvements. Will the Minister reassure me that the Department is satisfied that increasing Britain's stake in the bank and taking on the accompanying further contingent liabilities will contribute to DFID's influence and its strategic priorities, and represent a good use of the country's resources? I know that, as part of the Department's multilateral aid review, there has not been a dedicated assessment of the African Development Bank.

A review has been carried out of the UK's funding of the African Development Fund, part of the African Development Group, and has highlighted some concerns about its progress on cross-cutting issues, namely gender, fragile contexts and climate change, as well as cost and value consciousness. I would welcome the Minister's view on whether those concerns that relate to the African Development Fund are relevant to the bank, and any other assessment he can provide of the bank's performance.

Although scrutiny of spending and investments is always necessary, it seems clear that the African Development Bank is a valuable force in the fight for development, and that the Government's wish to increase Britain's involvement in the bank is justified. It therefore gives me pleasure to support the order on behalf of the Opposition, endorsing the Government's approach and proposals for increasing Britain's investment in the African Development Bank, provided that the Minister can give us the reassurances that we seek.

4.46 pm

Mr Swayne: I thank the hon. Gentleman for his support and questions. He initially asked about the bank's importance in furnishing studies. That is important, and we are grateful for its study on transport costs. We have asked them to conduct a similar study on driving down energy costs.

The hon. Gentleman specifically asked me about two things. First, he asked about taking on the additional contingent liabilities. I felt that he answered his own

[Mr Swayne]

question effectively, in that we are considering a triple A-rated institution—there has never been any call on the capital. We estimate that it is worth taking on the liability, and we have received the Chief Secretary to the Treasury's permission to do that.

I believe that buying the additional influence is some way off. Even if we got all the shares, increasing our influence is a long-term prospect. There is a key change: among the non-regional players, shareholdings determine how long they hold the directorship. That is an important means of influencing the process. In the longer term, we are therefore keen to increase our influence and to purchase the shares.

Secondly, the hon. Gentleman asked about the multilateral aid review. The last review said that we were getting good value for money, and that the bank's performance was generally very good. There was some concern at the corporate level about the lack of emphasis on women and girls, and also about climate change, which the hon. Gentleman mentioned. The MAR is not a one-off process. We provided, because of our determination to improve the bank's performance, £2 million of technical assistance to enable it to improve. A special envoy on gender has been appointed and we are confident that the bank is performing well on that metric. On climate change, the bank's 10-year plan is to make Africa transform into a clean energy continent. Increasing the focus on climate change is welcome and now meets our requirements.

I think that that accounts for all the questions that I have been asked. I have been informed that I may have made a slight slip with my figures. I very much doubt it! I referred to £4.5 million lending from 2013. I should have said that it relates to 2014 to 2016 and that it takes the form of concessional loans as well as grants.

Mr Shuker: You would have got that one past me.

Mr Swayne: The hon. Gentleman surprises me. I am certain I get nothing past him.

I hope that that satisfies the Committee and that the order will be carried.

Question put and agreed to.

4.51 pm

Committee rose.