EXPLANATORY MEMORANDUM TO

THE CARIBBEAN DEVELOPMENT BANK (FURTHER PAYMENTS TO CAPITAL STOCK) ORDER 2011

2011 No. 1772

1. This explanatory memorandum has been prepared by Department for International Development and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This proposed order permits the Secretary of State for International Development, in his role as United Kingdom Governor at the Caribbean Development Bank ("the Bank") to make a payment of sums not exceeding in aggregate the equivalent of 20,705,000 United States Dollars towards the increased capital stock of the Bank. This payment will be made pursuant to arrangements that have been made between the Bank and Her Majesty's Government in accordance with Resolution No. 4/10 of the Board of Governors dated 19th May 2010.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 The proposed Order is being made to enable the Secretary of State to contribute further to the Ordinary Capital Resources (OCR) of the Bank by subscribing to additional shares. The purpose of this further contribution, together with contributions pledged by other donors, is to increase the capital base of the Bank through the process known as a General Capital Increase (GCI). This will enable the Bank to increase its capability to reduce poverty in the Caribbean by making loans to middle income countries and making loans to and equity investments in private sector organisations.

4.2 Where the Government of the United Kingdom becomes bound to make a payment to a multilateral development bank, Section 11 of the International Development Act 2002 permits the Secretary of State to make a payment to that bank, once he has made an order with the approval of the Treasury, a draft of which has been approved by the House of Commons.

4.3 The Bank is issuing additional shares to support its forward lending strategy. The UK currently holds 9.56% of the shares in the Bank and the Government wishes to increase its shareholding in the Bank proportionately. The UK has been allocated 15,602 (9.56% of the shares being issued in this GCI) for purchase at a cost of 94.1 million United States Dollars. Under the terms of this share issue, of the allocated shares, 22% must be paid for at a cost of 20,705,000 United States Dollars. This is known as the 'Paid in Capital' and it this amount that is covered by this Order. The remaining 78% will be 'callable' (i.e. a contingent liability). Parliamentary approval to incur this liability is obtained by a separate process explained below.

4.4 It is normal practice, when a government department proposes to undertake a contingent liability in excess of £250,000 for which there is no specific statutory authority, for the department concerned to present to Parliament a Minute giving particulars of the liability created and explaining the circumstances; and to refrain from incurring the liability until fourteen parliamentary sitting days after the issue of the Minute, except in cases of special urgency.

4.5 The Treasury has approved the proposal to undertake this contingent liability in principle and the Minute giving particulars of it has been laid in Parliament, together with this Draft Order. If, during the period of fourteen parliamentary sitting days, beginning on the date the Minute was laid, a Member signifies an objection by giving notice of a Parliamentary Question or by otherwise raising the matter in Parliament, final approval to proceed with incurring the liability will be withheld pending an examination of the objection.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

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 Caribbean Development Bank (Further Payments to Capital Stock) Order 2011 are compatible with the Convention rights.

7. Policy background

7.1 The Bank is a regional development bank established in 1969. Its purpose is to foster economic growth and development of its member countries in the Caribbean and to promote economic co-operation and integration among them, having special regard to the less developed members of the region. The major regional shareholders are Jamaica and Trinidad & Tobago (both 17.77% shares and 17.38% votes). The major non-regional shareholders are the United Kingdom and Canada (both 9.56% shares and 9.41% votes).

7.2 The Caribbean region is characterised by the fragility and vulnerability associated with small states prone to natural disasters. Current economic, social and environmental challenges threaten to undermine some of the significant gains made in human and economic development. Despite the predominantly middle-income status of the region, high levels of inequality mean there are significant pockets of poverty.

7.3 DFID recognises that the Bank is a valuable vehicle for tackling poverty in the small island nations of the Caribbean. It has extensive regional knowledge, close relationships with key policy-makers and officials, and technical competencies in core areas of need, such as infrastructure. The Bank is particularly crucial for the UK Overseas Territories who have similar challenges to the rest of the Caribbean but who do not have access to IMF, World Bank or Inter-American Development Bank’s resources. The Bank helps to fill some significant financing gaps in these countries.

7.4 The Bank has improved in efficiency and effectiveness in recent years, including implementing major changes in staff structure and skills mix, and focusing on results. The Bank's Strategic Plan 2010-2014 seeks to address many of the current development challenges in the region, taking into account the Bank's comparative advantage and the role of other development partners in the region. The Plan's objectives are: Promoting broad-based economic growth and inclusive social development; Environmental sustainability and disaster risk management; Good governance; Regional cooperation and integration; Enhancing organisational efficiency and effectiveness; and Promoting gender equality.

7.5 The Bank has two main lending windows to channel its development assistance: Ordinary Capital Resources (OCR) and the Special Development Fund (SDF). OCR comprises shareholders capital and reserves, repayments of past loans, and investment income. It lends to middle-income countries and the private sector at near-market rates. The SDF provides grants or loans with very favourable repayment terms, focusing on the poorest Caribbean countries. The GCI will increase the amount the Bank can lend and invest in the Caribbean through its OCR operations.

7.6 The Bank requires a stronger capital base in order to respond effectively to the effects of the economic crisis and to implement its Strategic Plan. In late 2008, G20 leaders recognised that a significant response to the financial crisis would put extra pressure on the resources of the MDBs and their ability to finance operations in the longer term. Before the economic crisis, the Bank loaned about $100m each year. In 2009, this rose to $151 million in order to provide additional support for the poorest countries. Governors voted on 19th May 2010 to increase the capital of the bank by 150%. This increase will allow the bank to expand average lending to about $200m per year for the next ten years. The UK supported this expansion.

7.7 The GCI increases the Bank's authorised capital stock by 194,445 shares and authorises increases in individual member's subscriptions. The value of the capital stock will rise from $657 million, leading to a cumulative total of $1,641 million of which $360.4 million will be paid in. For the UK, this represents 15,602 additional shares worth $94.1 million. $20.7 million will be paid in over a six year period and the remaining $73.4 million will be callable and added to our contingent liability. The existing UK callable shares of $49.1 million will increase to a total contingent liability of $122.4 million as a result of the GCI.

7.8 The main risk associated with the GCI is that the UK will be asked to pay for the callable shares. Although the Bank has the right to call for payment for these callable shares if there is a crisis affecting the Bank's assets or loans, this has not occurred in relation to existing callable shares. The Bank has an AAA credit rating.

7.9 The Bank adopted the General Capital Increase Resolution No. 4/10 on 19 May 2010. (A copy of Resolution No. 4/10. has been laid in the House of Commons library together with the GCI policy paper). If this Order is approved in accordance with Resolution No. 4/10, the United Kingdom's paid-in contribution will be made in six annual instalments from 2011 to 2016, each in the form of a non-negotiable, non-interest bearing promissory note expressed in Pounds Sterling and encashable on demand according to an agreed encashment schedule.

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 because there is no impact on business, charities or voluntary bodies in the United Kingdom.

11. Regulating small business

11.1 The legislation does not apply to small business in the United Kingdom.

12. Monitoring and review

12.1 The Bank has a Results Framework and an Implementation Plan to measure operational progress and internal reforms. The Bank also produces annual reports as well as regular financial and operational statements.

12.2 The UK has a seat on the Bank's Board of Directors and the GCI investment will be monitored by the Board and subject to Annual Performance Reviews. DFID has produced a Logical Framework to monitor progress against a set of performance indicators that will be available on DFID's public website.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Adrian Miller at the Department for International Development via email: (adrian-miller@dfid.gov.uk) or telephone (020 7023 0145).