EXPLANATORY MEMORANDUM TO

THE CARIBBEAN DEVELOPMENT BANK EIGHTH REPLENISHMENT OF THE UNIFIED SPECIAL DEVELOPMENT FUND) ORDER 2013

2013 No. XXXX

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

This Instrument permits the Secretary of State for International Development, in her role as Governor for the United Kingdom at the Caribbean Development Bank ("CDB"), to make a payment not exceeding £36,000,000 towards the eighth replenishment of the Special Development Fund (Unified[1])("SDF").

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 SDF. The purpose of this further contribution, together with contributions pledged by other donors, is to provide the SDF with commitment capacity for its continued lending on highly concessional terms and provision of grants to its borrowing member countries in the Caribbean region over the four-year period, 2013-2016.

4.2 Section 11 of the International Development Act 2002 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 the Secretary of State 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

Justine Greening, 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 (Eighth Replenishment of the Unified Special Development Fund) Order 2013 are compatible with the Convention on Human rights.

7. Policy background

7.1 As stated above, the purpose of the present Order is to enable the Government to make a contribution to the eighth replenishment of the SDF of a sum not exceeding £36,000,000.

7.2 The CDB is a regional development bank established in 1969. Its purpose is to foster economic growth and development of the 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 Bank is an important source of development finance and technical assistance in the region, and as an indigenous regional institution, it is viewed as a close and valuable development partner. 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).

7.3 The CDB is structured along similar lines to the World Bank, with two main lending windows: Ordinary Capital Resources which lend at market rates of interest; and the SDF which lends on concessional terms and provides grants to the poorest member countries. The SDF was established by the Caribbean Development Bank in 1970 and is financed from a number of sources, primarily donor contributions and the repayment of past loans. It is replenished usually every four years. The United Kingdom has contributed as follows:

1st Replenishment 1984-1987: £6,640,300

2nd Replenishment 1988-1991: £9,252,510

3rd Replenishment 1992-1995: £10,578,000

4th Replenishment 1996-2000: £10,600,000

5th Replenishment 2001-2004: £17,496,000

6th Replenishment 2005-2008: £23,492,000

7th Replenishment 2009 – 2012 £35, 357,000

7.4 Negotiations on the eighth replenishment of the SDF commenced in March 2012 and were concluded in December 2012. The replenishment was approved by the CDB's Board of Governors under a Resolution adopted on 21 March 2013. The total SDF 8

funding outcome is $348 million for the period 2013-2016, with new donor contributions accounting for 61% of the total replenishment.

7.5 The UK has pledged a total of £36 million. £6 million of this amount will be set aside as a performance incentive to be triggered in early 2015 by sufficient progress by the Bank on managing for results (strategic direction, project design and implementation, project monitoring and evaluation), accelerated progress on gender equality and required staff recruitments. Disbursement of the performance-related £6 million will be based on an independent assessment of the Bank's progress up to late 2014, as part of the SDF 8 Mid-Term Review. The UK's pledge to contribute £36 million (approximately $54 million), constitutes a burden share of 23%. However, if the CDB were unable to achieve the performance targets set for the £6 million performance incentive in early 2015, the UK share would be 19% (based on the £30 million base contribution).

7.6 Although the Caribbean region has made some progress towards the Caribbean Millennium Development Goals (MDGs), there are still major problems with poverty, indigence and vulnerability. In many countries, inequality and social exclusion contribute to growing social problems, including high levels of crime. A high proportion of the population is at risk of falling into poverty due to regularly occurring economic shocks and natural disasters (hurricanes, flooding and earthquakes).

7.7 The SDF is an important part of the aid architecture for the Caribbean and an important instrument for addressing deep-seated problems of poverty and human development and in strengthening resilience in some of the most highly vulnerable economies in the world. The SDF plays a valuable role in supporting the Bank's borrowing member countries in meeting the MDGs and in strengthening regional cooperation and integration as the base for economic renewal in the region. It is an essential part of the work of the Bank as an important regional development agency in the Caribbean and a principal partner of other agencies supporting the region's economic and social development.

7.8 The Bank's expected results for SDF 8 include the following targets for 2013-2016.

- **Education**: 237,000 students benefitting from improved physical classroom conditions, enhanced teacher competence and access to student loan financing

- **Social and economic infrastructure**: 569,000 beneficiaries of road improvements, over 20,000 households with access to sanitation and water supply through 89 km of water supply lines installed or upgraded

- **Agriculture and rural development**: 4,800 hectares of land irrigated or improved through drainage, flood and irrigation works and over 5,300 stakeholders trained in improved production technology

- **Environmental sustainability, disaster risk management and climate change**: 25 projects contributing to climate change and disaster risk management through adaptation, mitigation and improved community resilience.

7.9 The CDB adopted the SDF 8 Resolution on 21 March 2013. A copy of the Resolution has been laid in the House of Commons library together with the SDF 8 Contributors Report. In accordance with the Resolution, the United Kingdom's contribution will be made in four annual instalments, each in the form of a non-negotiable, non-interest bearing promissory note expressed in pounds sterling and encashable on demand.

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.

12. Monitoring & review

12.1 DFID's monitoring will be undertaken through its own Annual Reviews and a final Project Completion Review of SDF 8. Evidence to inform the DFID reviews will be drawn from a number of sources, including the CDB's annual Development Effectiveness Review, reports by the representatives of the UK on the CDB's Board, the CDB's Annual Reports and the Mid-Term Review (MTR) of SDF 8 in late 2014. The MTR will include an independent report by consultants on the Bank's "Managing for Development Results" agenda using the methodology of the Multilateral Organisation Performance Network.

12.2 The UK Multilateral Aid Review 2011 (MAR) concluded that the CDB contributed significantly to UK objectives in the Caribbean and had excellent relationships with its borrowing members. It assessed that the Bank managed its financial resources well. It noted that the Bank had recently implemented changes including a major review of staff skills and structures, and the introduction of a new strategy and results framework. The MAR assessed that these reforms needed to be deepened and strengthened and that the lack of staff with the right capacity and skills was a challenge

for the Bank's effectiveness and a key obstacle for some reforms to move forward sufficiently.

12.3 DFID conducted an update of the MAR in early 2013, which focused on the MAR priorities from 2011 and the Bank's progress in those areas. The priority areas monitored were; results management, project monitoring and evaluations, value for money and cost consciousness, transparency and accountability, and progress on gender equality. The update noted CDB's continued capacity constraints and assessed that the Bank had been slow in implementing their reform programme. It assessed some progress on results, transparency and gender, but little or no progress on value for money and cost consciousness. The Bank accepts the MAR Update assessment. Its senior management is confident that the newly strengthened staff capacity will lead to improved implementation of plans which lead to improved progress scorings in the next MAR update (2015).

13. Contact

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