**EXPLANATORY MEMORANDUM TO**

**THE CARIBBEAN DEVELOPMENT BANK (NINTH REPLENISHMENT OF THE UNIFIED SPECIAL DEVELOPMENT FUND) ORDER 2017**

**2017 No. [XXXX]**

## 1. Introduction

1.1 This explanatory memorandum has been prepared by Department for International Development (DFID) and is laid before House of Commons by Command of Her Majesty

## 2. Purpose of the instrument

2.1 The proposed Order permits the Secretary of State for International Development, in her role as Governor for the United Kingdom at the Caribbean Development Bank (hereafter "CDB"), to make a payment up to £18,000,000 towards the ninth replenishment of the Special Development Fund (Unified[1]) (hereafter "SDF 9") pursuant to the arrangements that have been made between the CDB and Her Majesty's Government in accordance with the Resolution of the Board of Governors adopted on December 8 2016.

## 3. Matters of special interest to Parliament

***Matters of special interest to the Select Committee on Statutory Instruments***

3.1 None.

***Other matters of interest to the House of Commons***

3.2 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland and Northern Ireland and is not a financial instrument that relates exclusively to England, Wales and Northern Ireland.

## 4. Legislative Context

4.1 The proposed Order is being made to enable the United Kingdom 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 additional financial resources 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, 2017-2020.

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.

[1] The original Special Development Fund offered an assortment of terms and conditions fixed by contributors. The "Unified" fund was established in 1983 with consistent terms, objectives and procurement conditions. All contributions to this replenishment are to the Special Development Fund (Unified).

## 5. Extent and Territorial Application

5.1 The extent of this instrument is United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom

## 6. European Convention on Human Rights

6.1 Priti Patel, 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 (Ninth Replenishment of the Unified Special Development Fund) Order 2017 are compatible with the Convention rights."

## 7. Policy background

7.1 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. As an indigenous regional institution, it is viewed as a close and valuable development partner in the region. The major regional shareholders are Jamaica and Trinidad & Tobago (17.77% shares and 17.38% votes respectively). The major non-regional shareholders are the United Kingdom and Canada 9.56% shares and 9.41% votes respectively).

7.2 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:

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| **1st Replenishment** (1984) | £6,640,300 |
| **2nd Replenishment** (1988) | £9,252,510 |
| **3rd Replenishment** (1992) | £10,578,000 |
| **4th Replenishment** (1996) | £10,600,000 |
| **5th Replenishment** (2001) | £17,496,000 |
| **6th Replenishment** (2005) | £23,492,000 |
| **7th Replenishment** (2009) | £35, 357,000 |
| **8th replenishment** (2013) | £33,000,000 |

7.3 Negotiations on the ninth replenishment of the SDF commenced in March 2016 and were concluded in October 2016. The replenishment was approved by the SDF's contributors under a Resolution adopted on 8 December 2017. The total SDF 9 funding outcome is $222.6 million for the period 2017-2020, with new donor contributions accounting for 74.8% of the total replenishment.

7.4 As part of delivering on the United Kingdom's Caribbean priorities on growth, stability and prosperity, the United Kingdom has pledged a total of £18 million to SDF 9. The SDF contributes to economic and social development in the Caribbean

through investments in core sectors including transport, education, water and sanitation, and agriculture that contribute to the progress of the Caribbean Sustainable Development Goals (SDGs): The specific objectives and commitments for SDF 9 are set out in the replenishment negotiations concluding "Report of Contributors".

7.5 £4.5 million of the United Kingdom's £18 million pledge will be set aside as a performance incentive to be triggered in mid 2020 by sufficient progress by the Bank on development results, operational performance and transparency. The United Kingdom's pledge to contribute £18 million constitutes a burden share of 11.6% using the exchange rates fixed for the replenishment. However, if the CDB were unable to achieve the performance targets set for the £4.5 million performance incentive in early 2015, the United Kingdom share would be 8.7% (based on the £13.5 million base contribution).

7.6 Although there has been a modest reduction in the amount of people living in poverty from 24% to 21% across the last decade, the Caribbean region is still struggling with slow growth and is highly vulnerable to economic and natural shocks. Growth has been held back by high levels of public debt and falling competitiveness. There is a very significant infrastructure gap in the Caribbean, estimated at £3.5 billion by the CDB. Ageing, inefficient, inadequate, broken or missing infrastructure due, for example to natural disasters, is a major constraint to doing business. Social investments to poor communities also limit inclusiveness. Governments in the region, most of them small and vulnerable island states with weak capacity to respond to natural disasters and external economic shocks, recognise the need for action, but lack the financial and human resources to implement the reforms needed to stabilise their economies and to promote economic growth. Most of the CDB member states, including some of the poorest such as Haiti, St Vincent, Suriname, Dominica and St Lucia, with an income per capita of less than US$10,000, have only limited access to grants and concessional financing available to very poor countries through the World Bank, the Inter-American Development Bank or the European Union including the European Investment Bank.

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 Sustainable Development Goals and in strengthening regional cooperation and integration as the base for economic renewal in the region.

7.8 The CDB will deliver both direct development results through the SDF 9, and internal reforms agreed as part of the SDF Replenishment negotiations. These reforms will improve the way the SDF is run and enable the Fund to make a more substantial contribution towards the SDGs in the longer term. Core development outputs and outcomes expected during SDF 9 include:

- 222 km of roads built or upgraded.
- 198,900 students benefiting from improved educational facilities and provision.
- 285 small businesses benefiting from credit.
- 248,768 beneficiaries of community citizen security interventions and;
- 18,400 households with access to improved sanitation and water supplies.

7.9 The CDB adopted the SDF 9 Resolution on 8 December 2017. A copy of the Resolution has been laid in the House of Commons library together with the SDF 9 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 There is no expected impact on business, charities or voluntary bodies.

10.2 There is no expected impact on the public sector.

10.3 An Impact Assessment has not been prepared for this instrument.

## 11. Regulating small business

11.1 The legislation does not apply to small businesses.

## 12. Monitoring & review

12.1 Regular and effective monitoring, reviewing and lesson learning are critical to how DFID will measure the results of SDF 9 and demonstrate its value for money. DFID's monitoring will be undertaken through its own Annual Reviews in 2018-2020 and a final Project Completion Review of SDF 9 in 2021. Evidence to inform the DFID reviews will be drawn from a number of sources, including the Bank's Annual Development Effectiveness Review and Annual Report, the SDF 9 Mid Term Review in early 2019, consultation with the United Kingdom's non-resident Executive Director for CDB, independent evaluations, and feedback from DFID country offices. Other sources of information include internal and independent evaluations and reports by organisations such as the Multilateral Organisation Performance Network (MOPAN). DFID will monitor progress against a set of performance indicators taken from the Results Management Framework. This together with its Annual and Project Completion Reviews and DFID's Business Case for this contribution, will be published on DFID's website.

12.2 The United Kingdom is represented on the Board of Governors by the Secretary of State for International Development, Priti Patel. The Executive Director representing the United Kingdom at the CDB also oversees the use of SDF resources as a member of CDB's Board of Directors.

## 13. Contact

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