EXPLANATORY MEMORANDUM TO

THE INTER-AMERICAN INVESTMENT CORPORATION (FURTHER PAYMENTS TO CAPITAL STOCK) ORDER 2024

2024 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by the Foreign, Commonwealth and Development Office (FCDO) and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Anneliese Dodds MP, Minister of State for Development at the Foreign, Commonwealth and Development Office confirms that this Explanatory Memorandum meets the required standard.

2.2 Chris Bold, Deputy Director for the International Financial Institutions Department at the Foreign, Commonwealth and Development Office confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Sara Labbate at the Foreign, Commonwealth and Development Office (sara.labbate@fcdo.gov.uk) can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Inter-American Investment Corporation (Further Payments to Capital Stock) Order 2024 (the 'Order') permits His Majesty's Government (the 'Government') to make further payments of an amount up to and not exceeding US$106 million to the Inter-American Investment Corporation (the 'Corporation'). This will enable the UK to maintain its current 0.22% shareholding and provides headroom for the UK to purchase additional shares if available, with the potential to increase our shareholding up to 1.5%. The payments will be pursuant to arrangements that have been made between the Corporation and the Government in accordance with Resolution CII/AG-5/24 entitled 'New Vision and Business Model for the Inter-American Investment Corporation: Capitalisation Proposal and Implementation Plan' adopted by the Board of Governors of the Corporation on 10th March 2024.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The Inter-American Development Bank Group (the 'Group') is the largest source of development finance in Latin America and the Caribbean, providing US$24 billion to the region in 2023. The Group is a key partner for the Government's global and regional objectives for tackling poverty and promoting sustainable development, given their focus, among other things, on climate change, biodiversity protection, and disaster preparedness. The Group's Institutional Strategy up to 2030 focuses on three pillars: reducing poverty and inequality, addressing climate change, and bolstering sustainable regional growth to achieve the United Nations' Sustainable Development Goals ('SDGs').

5.2 The Group has two main arms: The Inter-American Development Bank (the 'Bank') which lends to sovereign governments; and the Corporation which invests in the private sector. The UK has small shareholdings in both – 0.96% of the shares in the Bank and 0.22% of the shares in the Corporation.

5.3 In 2015, the Bank's shareholders (which included the UK) voted unanimously to transfer the majority of the Bank's private sector operations into the Corporation. The Corporation already existed having been established by the Agreement in Washington DC on 19th November 1984 (Cm 9659) (the 'Agreement'). The transfer took effect in January 2016. The UK opted to join the Corporation at no cost as part of an agreed capital transfer of US$6.981 million from the Bank to the Corporation. The capital transfer purchased 431 shares in the Corporation, representing the UK's current 0.22% shareholding, and without changing the 0.96% shareholding in the Bank.

5.4 The UK ratified the Agreement on 1st March 2023 and became a member of the Corporation.

5.5 With limited bilateral Official Development Assistance ('ODA') to the region, membership of the Corporation provides an opportunity for the UK to leverage larger volumes of development finance. This will support delivery of regional priorities including eradicating poverty and supporting global public goods such as clean air and the environment. The Corporation responds to the growing need for finance in the region by lending to and investing in the private sector, where it is able to tackle regional and global challenges.

5.6 At the Annual Meeting, on 10th March 2024, the Group's Governors', including the UK, unanimously agreed to a US$3.5 billion capital increase for the Corporation. This will more than double its capital base over the period 2025 to 2031.

5.7 Through the increase in capital stock, the Corporation intends to scale up its impact across all the Bank's borrowers and to increase development effectiveness. By 2032 the Corporation estimates it will increase annual investment to more than US$14 billion per annum (up from US$11 billion in 2023, a record year). The Corporation will enhance development impact through policy commitments that are well-aligned to the UK's development priorities. These commitments include projects that support: mitigation and adaptation to climate change, enhanced gender equality, diversity and inclusion, micro, small and medium-sized enterprises and poor and vulnerable

beneficiaries and 'small and island' countries in the Caribbean which will receive at least 10% of the Corporation's investments.

5.8 The Corporation will undertake business reforms to increase the level of co-investment it attracts from private investors and to allocate its capital more effectively. It will provide an expanded support offer covering loans (including increased options for local currency financing), equity investments, guarantees, and advisory services. It will adopt higher targets for social and climate related impacts.

5.9 The FCDO has been a strong supporter of the Corporation's reforms. They align to the G20's (including the UK) broader calls for the Global Financial System to increase the volume of financing for developing countries, including through better allocation of capital resources, and stronger partnership with private investors. The objectives of the Corporation's capital increase – to scale up mobilisation, to redeploy capital in an efficient manner through the adoption of risk transfer mechanisms, and higher risk appetite for greater development impact – place the Corporation at the forefront of responding to UK and G20 strategic priorities.

5.10 This Order authorises the FCDO on behalf of the Government to make a payment of up to US$106 million to the increased capital stock of the Corporation. This will enable the UK to maintain its current 0.22% shareholding and provides headroom for the UK to purchase additional shares. The Corporation will reallocate any initial shares not taken up by shareholders at the end of the subscription period in March 2026. The UK as a new member of the Corporation has a first option to purchase additional shares. Should this be possible, the UK's 'voice' and representation at the Board of Directors (which is related to level of shareholding) will increase and provide for greater influence as the Corporation implements its strategy. The initial share allocation for the UK, based on the current 0.22% shareholding, is for 366 shares, a contribution of US$7,686 million. Authorisation of payment of up to US$106 million could the enable the UK to purchase additional shares (if available) increasing the UK's shareholding to 1.5%.

What was the previous policy, how is this different?

5.11 It has been longstanding policy to work through the multilateral system to deliver on UK objectives. Multilateral development banks sit at the heart of this system as one of the largest sources of development finance. They form part of the core response to end extreme poverty and to tackle climate change and biodiversity loss. They work to help borrowers secure sustainable economic growth and achieve self-reliance to make progress across all SDGs. Investment in the Corporation is consistent with these aims.

6. Legislative and Legal Context

How has the law changed?

6.1 The effect of the Order is to authorise the Government to purchase shares in the Corporation up to an amount of US$106 million. This will maintain the UK's current shareholding of 0.22% and potentially increase it to 1.5%.

Why was this approach taken to change the law?

6.2 The purchase of additional shares in the Corporation is a relevant payment within the meaning of section 11 (2) of the International Development Act 2002 ('IDA') and, in accordance with s.11 (5), an Order approved by the House of Commons is required for the payment to be made.

7. Consultation

Summary of consultation outcome and methodology

7.1 Not relevant in the context of this instrument.

Part Two: Impact and the Better Regulation Framework

8. Impact Assessment

8.1 A full Impact Assessment has not been prepared for this instrument because no significant direct impact on businesses in the UK is foreseen.

Impact on businesses, charities and voluntary bodies

8.2 There is no, or no significant, impact on business, charities, or voluntary bodies.

8.3 The legislation does not impact micro businesses.

8.4 There is no, or no significant, impact on the public sector.

9. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

9.1 The Group has finalised and published a new impact framework following consultation with shareholders, including the UK, that sets targets for the efficiency and effectiveness of the Group's operations and the impact on poor people, tackling climate change, supporting the Caribbean and other key areas. The impact framework includes specific targets for the Corporation, which also has its own institutional level scorecard. The Corporation's Management Board will review outputs as part of its wider Annual Report published every March and the Group-wide Development Effectiveness Overview Report published every Autumn, which they will then be presented to the Board of Governors at the Annual Meeting. Regular and effective monitoring, reviewing and lesson learning are critical to how FCDO will measure the results of the Corporation's increase in capital stock and demonstrate its value for money. FCDO monitoring will be undertaken through its own Annual Reviews and a final Project Completion Report of the Corporation in 2031. Evidence to inform the FCDO reviews will be drawn from a number of sources, including reporting and independent evaluation within the Group, consultation with the UK Representative resident at the Group's Headquarters and feedback from FCDO's offices overseas.

9.2 The legislation does not include a statutory review clause because it has no regulatory effect on business.

Part Three: Statements and Matters of Particular Interest to Parliament

10. Matters of special interest to Parliament

10.1 Section 11 of IDA provides powers for the Government to make relevant payments to multilateral development banks where it is bound to do so. No obligation arises until the Government deposits an Instrument of Subscription (the 'Instrument') with the Corporation which binds the UK to make the payment foreseen by article 3 of the Order. This raises a technical issue about the Order making power in section 11. The power requires the Order to be approved in draft by the House of Commons, but the Secretary of State, with the approval of the Treasury, may make the Order only when the Government is bound to make the payment by the deposit of the Instrument. The

draft Order is being laid at this time to secure the approval of the House, but it will not be made until the Instrument is deposited.

11. European Convention on Human Rights

11.1 Anneliese Dodds MP, Minister of State for Development has made the following statement regarding Human Rights:

"In my view the provisions of the Inter-American Investment Corporation (Further Payments to Capital Stock) Order 2024 are compatible with the Convention rights."

12. The Relevant European Union Acts

12.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ('relevant European Union Acts'). It does not trigger the statement requirements under the relevant European Union Acts.