EXPLANATORY MEMORANDUM TO

THE INTER-AMERICAN DEVELOPMENT BANK (CONTRIBUTION TO THE FUND FOR SPECIAL OPERATIONS) ORDER 2011

2011 No. 1768

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 Inter-American Development Bank ("the Bank"), to make payment to the Bank of the equivalent of US $9,287,455 to increase the resources of the Bank's Fund for Special Operations (FSO). The money will provide debt relief and additional grants to Haiti. Payment will be made in accordance with arrangements made between the Bank and Her Majesty's Government. Pursuant to Resolution AG 7/10 of the Bank's Board of Governors dated 21st July 2010, those arrangements will be set out in a resolution adopted by the Board that is materially identical to the proposed resolution, titled "Increase in the Resources of the Fund for Special Operations and Contributions Thereto" ("the Proposed FSO Resolution"), annexed to the Bank's Report of the Ninth General Capital Increase in the Resources of the Inter-American Development Bank.

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 replenishment of the FSO. The purpose of this further contribution is to enable the Bank to write off debt currently owed by Haiti to the Bank and provide additional grant resources through a replenishment of the FSO. These will enable the Bank to increase support to Haiti following the earthquake of January 2010.

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 FSO is a fund within the Bank which provides concessionary loans and grants to the poorest countries in the region. The UK's contribution since the start of

the FSO in 1961 has amounted to US $175.1 million or 1.796% of the total fund. The proposed contribution of US $9,287,455 maintains this proportion of 1.796%.

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 Inter-American Development Bank (Further Contribution to the Fund for Special Operations) Order 2011 are compatible with the Convention rights.

7. Policy background

7.1 The Inter-American Development Bank is a regional development bank established in 1959. Its role is to contribute to the economic and social progress of its regional member countries. The major regional shareholders are the USA, Argentina and Brazil. The major non-regional shareholders are Japan, France, Germany, Italy and Spain. The UK is a relatively small shareholder, with a shareholding of 0.964%. The UK is represented on the Bank's Board of Directors and shares its seat with Croatia, Japan, Portugal, Slovenia and South Korea.

7.2 DFID recognises that the Bank makes a significant contribution to development in Latin America and the Caribbean. It focuses on sustainable economic growth and climate change.

7.3 The Bank has two main lending windows to channel its development assistance: Ordinary Capital (OC) and the Fund for Special Operations (FSO). The FSO provides concessionary loans and grants to the five poorest countries in Latin America and the Caribbean: Bolivia, Guyana, Haiti, Honduras and Nicaragua. The current replenishment will enable the FSO to write off existing IADB loans to Haiti and provide additional grant resources in order to respond to the earthquake of January 2010.

7.4 The Bank adopted Resolution AG 7/10 on 21st July 2010. Resolution AG 7/10 approved the Bank's report on the Ninth General Capital Increase in the resources of the Inter-American Development Bank and asked members to take action to adopt two further proposed resolutions annexed to that report. One of these was the Proposed FSO Resolution, which contains the terms and conditions under which the UK proposes to participate in the FSO. It isn't possible for the UK Governor of the Bank to approve the adoption of the Proposed FSO Resolution without first giving a binding commitment to contribute to the FSO replenishment and so parliamentary approval for the contribution is being sought before the Proposed FSO Resolution is formally adopted by the Bank. Each country has been allocated additional contributions to the FSO in proportion to previous contributions. Countries have until 30th October 2011 to decide whether to make the FSO contributions.

7.5 The second proposed resolution annexed to the Bank's report is titled "Increase of US $70 Billion in the Authorised Ordinary Capital Stock and Subscriptions Thereto" ("the Proposed GCI Resolution"). The Proposed GCI Resolution contains the terms and conditions relating to the contribution to the Bank's Fund for Special Operations. The draft Inter-American Development Bank (Further Payments to Capital Stock) Order 2011 has been laid before Parliament together with a separate explanatory memorandum at the same time as this Order and memorandum and would approve the making of a payment to the Bank in accordance with the Proposed GCI Resolution.

7.6 A copy of Resolution AG 7/10, the Proposed FSO Resolution, the Proposed GCI Resolution and the Ninth Report to which they are annexed have all been laid in the House of Commons library. If this Order is approved then in accordance with the Proposed FSO Resolution, the United Kingdom's contributions will be made in five annual instalments from 2011 to 2015, each in the form of a non-negotiable, non-interest bearing promissory note expressed in United States Dollars 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 to measure progress and internal reforms. The Bank will produce annual reports on the FSO as well as regular financial and operational statements. A Mid Term Review will report on the FSO and GCI VI. The investment in the FSO replenishment will be monitored by the Board of Directors.

12.2 DFID has drafted a Logical Framework to monitor progress on the FSO replenishment and reforms against a set of performance indicators. The reviews will be done annually. The Logical Framework will be available on DFID's public website if the Statutory Instrument is approved.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Paula Barrett at the Department for International Development via email: (p-barrett@dfid.gov.uk) or telephone (020 7023 0860).

Department for International Development.
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