EXPLANATORY MEMORANDUM TO
THE INTER-AMERICAN DEVELOPMENT BANK (FURTHER PAYMENTS TO CAPITAL STOCK) ORDER 2011

2011 No. 1767

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 $16,370,078 towards the increased authorised capital stock of the Bank. 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 of US $70 Billion in the Authorised Ordinary Capital Stock and Subscriptions Thereto" ("the Proposed GCI Resolution"), annexed to the Bank's Report on 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 Ordinary Capital (OC) of the Bank by subscribing to additional shares. The purpose of this further contribution, together with contributions by other donors, is to increase the capital base of the Bank through the process known as a General Capital Increase (GCI). The GCI will enable the Bank to increase its capability to reduce poverty in Latin American and the Caribbean (LAC) by making loans to middle income countries.

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 0.964% of the shares in the Bank and the Government wishes to increase its shareholding in the Bank proportionately. The UK has been allocated 55,910 shares (0.964% of the shares being issued in this GCI) for purchase at a cost of US $674,466,504.35. Under the terms of this share issue, 1,357 of the allocated

shares must be paid for at a cost of US $16,370,078. This is known as the 'Paid in Capital' and it is this amount that is covered by the GCI component of this Order. The remainder US $658,096,426.63, will be 'callable' (i.e. a contingent liability). Parliamentary approval to incur this liability is obtained by a separate process explained in paragraph 4.5 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 Inter-American Development Bank (Further Payments to Capital Stock) 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 major 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 LAC. 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 GCI will increase the Bank's OC operations, lending at near market bank rates.

7.4 The GCI is in response to the development finance needs of LAC countries following the financial crisis. The GCI will increase the capital base of the Bank by 70%. It also includes a number of policy and management reforms which will be implemented over three years; increasing poverty focus, development effectiveness and better financial management.

7.5 Each country has been allocated additional shares in proportion to their current shareholding. Countries have until 30th October 2011 to decide whether to take up the shares.

7.6 The risk associated with the GCI is that the UK will be asked to pay for the callable shares. The new US $658,096,427 liability resulting from this GCI will be added to our existing callable shares liability of US $929,945,875, giving a total liability to the IADB of approximately US $1.59billion. 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 a AAA credit rating.

7.7 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 GCI Resolution, which contains the terms and conditions under which the UK proposes to participate in the GCI. It is not possible for the UK Governor of the Bank to approve the adoption of the Proposed GCI Resolution without first giving a binding commitment to participate in the GCI and so parliamentary approval of the GCI is being sought before the Proposed GCI Resolution is formally adopted by the Bank.

7.8 The other proposed resolution annexed to the Bank's report is titled "Increase in the Resources of the Fund for Special Operations and Contributions Thereto" ("the Proposed FSO Resolution"). The Proposed FSO Resolution contains the terms and conditions relating to the contribution to the Bank's Fund for Special Operations. The draft Inter-American Development Bank (Contribution to the Fund for Special Operations) 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 Fund in accordance with the Proposed FSO Resolution.

7.9 A copy of Resolution AG 7/10, the Proposed GCI Resolution, the Proposed FSO 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 GCI Resolution, the United Kingdom's paid-in contributions to the GCI 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 GCI as well as regular financial and operational statements. A Mid Term Review will report on the GCI and the FSO. The investment in the GCI and bank reforms will be monitored by the Board of Directors.

12.2 DFID has drafted a Logical Framework to monitor progress on the GCI, 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.
April 2011.