

# EXPLANATORY MEMORANDUM ON THE AGREEMENT ESTABLISHING OF THE INTER-AMERICAN INVESTMENT CORPORATION (IIC)

## Title of Treaty

**AGREEMENT ESTABLISHING THE INTER-AMERICAN INVESTMENT CORPORATION**

**Command Paper CM:** 9659

## Subject Matter

The Inter-American Investment Corporation (IIC) is the main private sector arm of the Inter-America Development Bank Group (IADB). The treaty establishing it was signed by 45 countries in the mid-1980s not including the UK. The IIC was officially inaugurated on March 23 1986, and its Articles amended by Governors' resolutions effective October 3 1995, July 4 2001 and June 12 2002.

The IIC's mission is to partner with the private sector in the Latin America and Caribbean (LAC) region to bolster competitiveness and sustainable growth. It provides financial products and advisory services to financial intermediaries, micro, small and medium enterprises, and partially or wholly-owned state enterprises.

The IIC also leverages resources such as additional financing, technology, or know-how through co-financing and syndication.

## Ministerial Responsibility

The Secretary of State for International Development has overall responsibility for the conclusion and implementation of treaty obligations and responsibility of their application for multilateral development banks.

## Policy Considerations

### General

The UK intends to become a member of the IIC through the transfer of US\$6.98m of UK resources held as part of its shareholding in the IADB. These resources form part of a US\$725m capital asset transfer from the IADB (of which the UK is a member) to the IIC.

In 2015 the UK was part of a unanimous vote of the Inter-American Development Bank's shareholders to merge its private sector operations into a single consolidated entity, in the IIC. The merger took effect in January 2016. The UK opted *(subject to Parliamentary approval of the accompanying*

*Command Paper*) to join at no cost, as part of an agreed capital transfer from the IADB to IIC which started in March this year and will span 8 years. Once completed, this will give the UK a 0.22% shareholding in the IIC without changing its 0.97% shareholding in the IADB.

Joining the IIC through the capital asset transfer offers the opportunity, at no extra cost, to be part of an important organisation in the Latin America and Caribbean region that will support economic growth and leverage further private sector resources for development financing, supporting the UK's Prosperity agenda. The UK's membership will deepen economic ties with the region and create opportunities for British businesses, by making it easier for UK companies to win contracts through the IIC. It also supports our Global Britain objective of playing an active, outward facing role in the rules-based international system. The Foreign and Commonwealth Office, the Department for International Trade and Her Majesty's Treasury all support the UK joining the IIC.

## Financial

The IADB initiated the eight year US\$725m capital transfer process in March 2018, including an initial transfer in the first year of US\$50m, of which the UK's share is US\$482,000.

The timing and size of further transfers will be subject to annual agreement by the IADB's Board of Governors but will likely follow the indicative schedule below. The UK's share of the transfers is a proportion of the UK capital invested plus the pro rata amount of accumulated net income earned with that capital, totalling US\$6.98m over the eight years and broken down as follows:

Transfer Year	IADB Capital to be transferred	Number of UK Shares to be transferred	UK share of transfer
2018	US\$50,000,000	29	US\$481,510.09
2019	US\$50,000,000	30	US\$481,510.09 <sup>1</sup>
2020	US\$110,000,000	66	US\$1,059,322.20
2021	US\$150,000,000	89	US\$1,444,530.27
2022	US\$150,000,000	89	US\$1,444,530.27
2023	US\$72,000,000	43	US\$693,374.53
2024	US\$72,000,000	43	US\$693,374.53
2025	US\$71,000,000	42	US\$683,744.33
<b>TOTAL</b>	<b>US\$725,000,000</b>	<b>431</b>	<b>US\$6,981,896.33</b>

As this is a capital transfer from the IADB to the IIC there are no new or additional costs incurred.

Given the timeframes involved, pressure of other Parliamentary business meant that there was insufficient time to ratify the treaty in time for the initial transfer in March. Following negotiations with the IIC, DFID with HMT's approval, have agreed to the UK's share of assets being moved into an escrow account held by the IADB until we can confirm full Parliamentary

<sup>1</sup> Only complete shares can be transferred at any time, which explains the difference in number of shares being transferred in 2018 and 2019, whilst the cost of the transfers is the same in both years.

approval and ratification. The IADB have confirmed that this approach does not affect our share in either the Bank or the IIC.

### **Reservations and Declarations**

None.

### **Implementation**

No new primary legislation is required for the UK to implement the Treaty. Secondary legislation is required to grant the IIC the immunities and privileges listed under the International Organisations Act 1968, and will be considered by both the Westminster and Scottish Parliaments.

The One-in, Three-out (OITO) rule has been considered as part of this process of concluding the treaty, but is not applicable.

### **Consultation**

Prior to gaining ministerial approval DFID consulted with the HMT as to whether joining the IIC through a no cost capital transfer would be value for money for the UK taxpayer. DFID also consulted DIT on what UK membership would mean for trade opportunities in the UK. Both departments agreed that there were more advantages to joining than not, especially the potential for increasing the UK's business opportunities in the LAC region. There has been no public consultation on this matter.

A handwritten signature in black ink, appearing to read 'P. Bates', written in a cursive style.

**LORD BATES**  
MINISTER OF STATE FOR INTERNATIONAL DEVELOPMENT