

**EXPLANATORY MEMORANDUM TO  
THE ASIAN INFRASTRUCTURE INVESTMENT BANK (INITIAL CAPITAL  
CONTRIBUTION) ORDER 2015**

**2015 No. 1835**

- 1.** This explanatory memorandum has been prepared by HM Treasury and is laid before the House of Commons by Command of Her Majesty.

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

**2. Purpose of the instrument**

2.1 This instrument permits the Secretary of State to make an initial capital contribution of the equivalent in pounds sterling at the time of payment of USD 3,054,700,000 to the Asian Infrastructure Investment Bank (AIIB), in accordance with Articles 5 and 58 of, and Schedule A to the Articles of Association of the AIIB signed on 29th June 2015.

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

3.1 None.

**4. Legislative Context**

4.1 The instrument is made under Section 11 of the International Development Act 2002 by the First Secretary of State with the approval of the Treasury. Section 11 enables the Secretary of State to make an order permitting him or her to make a relevant payment to a multilateral development bank where the Government of the United Kingdom is bound to make such a payment. An order under the section can only be made if a draft of it has been laid before and approved by the House of Commons. A “multilateral development bank” is defined in the section as an “international financial institution having as one of its objects economic development, either generally or in any region of the world”. The AIIB falls within this category.

**5. Territorial Extent and Application**

5.1 The instrument applies to all of the United Kingdom.

**6. European Convention on Human Rights**

6.1 The First Secretary of State has made the following statement regarding Human Rights:

In my view the provisions of the Asian Infrastructure Development Bank (Initial Capital Contribution) Order 2015 are compatible with the Convention rights.

## **7. Policy background**

7.1 The Asian Infrastructure Investment Bank (AIIB) is a new multilateral investment bank, which will invest in large-scale infrastructure projects across Asia to improve economic development and growth potential in the region. The aim of the Bank is to help fill the significant infrastructure deficit in Asia by helping to fund large projects.

7.2 The AIIB has 57 prospective founding members (37 from within Asia and 20 non-regional members) who engaged in formulating the Articles of Agreement of the Bank. The Articles were signed on behalf of the UK by Lord O'Neill of Gatley at a signing ceremony on 29th June 2015.

7.3 The Chancellor of the Exchequer first announced that the UK would become a prospective founding member of the AIIB in March 2015. In doing so, the UK was the first major Western economy and first member of the G7 to apply to join the AIIB.

7.4 The AIIB will begin operations with \$100bn total authorised capital. It will be financed by members' contributions proportionate to their economic size. The UK will make a capital contribution of \$3.054 billion (around £2 billion) to the AIIB. 20% of this contribution will be paid in capital, made in five equal annual instalments of \$122 million (around £80 million), with the first due in the financial year 2015 to 2016; the remaining 80% of the contribution will be in the form of callable capital. The paid in capital contribution will increase debt but not the deficit as it is a financial transaction and therefore is an asset of the UK. Callable capital is recorded as a contingent liability in the public finances and would only be subject to call as and when required by the Bank to meet its liabilities. It is very rare that callable capital would be called upon in an international financial institution.

## **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 Companies to work on AIIB projects will be chosen through fair and open competition and UK businesses will be eligible to apply. Work is being done by the AIIB with its prospective founding members to prepare additional documents to ensure equality

and fairness in operations of the Bank, including on environmental and social frameworks, procurement frameworks and HR policy.

10.2 The impact on the public sector will be the UK's capital contribution of \$3.054bn (around £2bn). Further details on this are in paragraph 7.3.

## **11. Regulating small business**

11.1 This instrument does not apply to small businesses in the UK.

## **12. Monitoring & review**

12.1 The AIIB is required under its foundation documents to transmit to its members an annual report containing an audited statement of its accounts and shall publish that report. It shall also transmit quarterly to its members a summary statement of its financial position and a profit and loss statement showing the results of its operations. The Bank may also publish such reports as it deems desirable in the carrying out of its purpose and functions.

12.2 The UK will be represented on the Board of Governors by the Chancellor of the Exchequer. The UK will be represented on the Board of Directors.

## **13. Contact**

13.1 Christian Johnson at HM Treasury (tel: 020 7270 2413 or email: christian.johnson@hmtreasury.gsi.gov.uk) can answer any queries regarding the instrument.