EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (SELECTIVE CAPITAL INCREASE) ORDER 2019

2019 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for International Development (DFID) and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 The proposed Order authorises the UK Government to make a payment to the International Bank for Reconstruction and Development ("IBRD") not exceeding, in aggregate, the equivalent of 66,481,948.50 United States Dollars (USD) towards the subscription of the 9,185 IBRD shares allocated to the United Kingdom in the 2018 IBRD Selective Capital Increase (SCI).

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes of English Laws)

3.2 The territorial application of this instrument includes Scotland and Northern Ireland. It is not a financial instrument that relates exclusively to England, Wales and Northern Ireland.

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is the United Kingdom.

4.2 The territorial application of this instrument is the United Kingdom.

5. European Convention on Human Rights

5.1 The Secretary of State for International Development has made the following statement regarding Human Rights:

"In my view the provisions of the International Bank for Reconstruction and Development (Selective Capital Increase) Order 2019 are compatible with the Convention rights."

6. Legislative Context

6.1 On 1 October 2018, World Bank Governors adopted Resolution No 664, increasing the IBRD authorised capital stock by 245,773 shares to members in proportions that do not match their existing IBRD shareholdings through a SCI.

6.2 This Order is made under section 11 of the International Development Act 2002, which empowers the Secretary of State to make relevant payments to multilateral development banks, once he or she has made an order with the approval of Parliament, the draft of which having been approved by HM Treasury.

6.3 Once made, this Order would permit the United Kingdom to pay IBRD the equivalent of 66,481,948.50 USD towards the subscription of the 9,185 IBRD shares it was allocated in the SCI (3.4% of the total). It would also permit the United Kingdom to pay IBRD sums required to maintain the value of this payment, in accordance with the Articles of Agreement. This would only be used, if for some reason IBRD were not able to convert the UK's pounds sterling contribution into USD, which would be very unlikely.

6.4 Subscription to the UK's allocated shares would also include 1,041,550,526.50 USD of additional 'callable capital', a contingent liability that shall only be called by IBRD should it become unable to meet its obligations. Consistent with HM Treasury guidance, a Departmental Minute relating to this callable capital has been laid in parallel to this Order.

6.5 The payments are expected to be made over a five-year period following the date of the resolutions coming into effect, that is by 1 October 2023, with the possibility of extension to six years by agreement of the World Bank Group President and seven years with agreement by the Board of Executive Directors.

6.6 Alongside the SCI, Governors have also agreed to authorise 230,500 additional IBRD shares through a General Capital Increase (GCI), in which shares are allocated in line with existing shareholdings. The United Kingdom would be expected to contribute 217,673,794 USD for that, with Parliamentary approval sought in parallel through a separate Order.

7. Policy background

What is being done and why?

7.1 IBRD is a global development cooperative owned by its 189 member countries. It is a member of the World Bank Group (WBG), which is the largest development actor globally with the scale, expertise and experience to deliver life-changing development projects. Between July 2014 and June 2017, the WBG supported:

287 million people receive essential health, nutrition, and population services;

81 million people receive new or improved electricity services;

54 million people receive access to improved water sources; and

45 million people receive access to improved sanitation services.

7.2 IBRD seeks to contribute to the aims of the WBG by providing loans, guarantees, risk management products and advisory services to middle-income and creditworthy low-income countries, as well as by coordinating responses to regional and global challenges.

7.3 IBRD uses its financial strength (with a triple-A credit-rating), to access finance at low interest rates and use this to provide support to its clients in return for interest payments that can be rechannelled back into its investments. This model has ensured that IBRD has delivered more than 500 billion USD in loans since 1946, with 14 billion USD of capital provided by shareholders. IBRD's operating expenses are financed from its equity returns and small margins on its lending. IBRD also provides an annual transfer of funds to the International Development Association (IDA), the World Bank's fund for the poorest countries.

7.4 To strengthen IBRD's financial capacity and support shifts in the relative shareholdings of its members, World Bank Governors authorised the creation of 498,443 new shares to be subscribed to by its members. IBRD shares have a 'par', or face value, of 120,635 United States Dollars (USD) per share. Subscription to these shares would be expected to provide IBRD with 7.5bn USD of paid-in contributions and an additional 52.6bn USD of callable capital.

7.5 The 498,443 of IBRD additional shares will be allocated in the following portions:

7.6 267,943 shares through a Selective Capital Increase (SCI) in which shares are allocated in proportions that do not match existing shareholdings in order to adjust relative shareholdings, with subscription to these shares made through 6% paid-in and 94% callable capital. The United Kingdom would be expected to pay-in 66,481,948.50 USD for the 9,185 shares that it has been allocated, with Parliamentary approval sought through this Statutory Instrument.

7.7 230,500 shares through a General Capital Increase (GCI) in which shares are increased in proportion with existing shareholdings, with subscription to these shares made through 20% paid-in and 80% callable capital. The United Kingdom would be expected to pay-in 217,673,794 USD for the 9,022 shares that it has been allocated, with Parliamentary approval sought in parallel through a separate, and parallel, Statutory Instrument.

7.8 The planned shareholder support combined with policy and financing commitments made by IBRD as part of the package are expected to enhance IBRD's ability to further support development, security, and prosperity. Specifically, it would support:

7.9 **Strengthening resilience and response to crises**. There will be a new crisis buffer for the IBRD, which would allow it to surge lending to help countries manage the shock of a widespread financial crisis. Investment in projects with climate change benefits will be increased to 30% of IBRD support by June 2023, compared with the WBG wide target of 28% of support by 2020.

7.10 **Promoting global prosperity**. IBRD will continue its work with Governments on reforms that will support a better enabling environment for private investment and increase its mobilisation of private finance for quality investments.

7.11 **Tackling extreme poverty and helping the world's most vulnerable**. IBRD will boost the share of its support going to its poorer clients. The share of its support to those countries below the threshold at which IBRD graduation is normally discussed, will increase to 70% of its total financial support (compared with 63% historically). **Across all clients IBRD will increase the** proportion of its projects that support gender equality to 55% by June 2023, from 42% currently.

7.12 **Delivering value for money and efficiency.** Wealthier countries will pay more to borrow and IBRD will deliver further internal efficiencies in its operating expenses.

7.13 The SCI allows for a shift in relative shareholding consistent with a rules-based 'dynamic formula' reflecting shifts in economic weight and contributions to the World Bank's fund for the poorest, the International Development Association (IDA). To support a gradual shift in shareholding the voting power of the smallest poor countries will be protected in full. The SCI is expected to result in some developing countries, in particular China, increasing their relative shareholding and voting share and wealthier countries reducing their relative shareholding and voting share. United Kingdom's shareholding is expected to marginally reduce from 3.97% to 3.91%. By forgoing some of the shares it would otherwise be eligible for, the United Kingdom will maintain its long-standing parity with France in terms of its shareholding to retain both countries' joint fifth single seats on the World Bank Board in support of the UK-France relationship. These shares would be withdrawn, meaning that they would not be available for subscription by other members.

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to withdrawal from the European Union nor trigger the statement requirements under the European Union (Withdrawal) Act.

9. Consolidation

9.1 Not relevant in the context of this instrument.

10. Consultation outcome

10.1 Not relevant in the context of this instrument.

11. Guidance

11.1 Not relevant in the context of this instrument.

12. Impact

12.1 There is no expected impact on business, charities or voluntary bodies.

12.2 There is no expected impact on the public sector.

12.3 An Impact Assessment has not been prepared for this instrument because there is expected to be a limited direct impact within the United Kingdom.

13. Regulating small business

13.1 The legislation does not apply to activities that are undertaken by small businesses.

14. Monitoring & review

14.1 IBRD will monitor and report to the WBG Board on its performance in relation to the financial and policy commitments made as part of this General Capital Increase. The Independent Evaluation Group (IEG) will continue to evaluate IBRD effectiveness. IBRD's financial data is audited by an external and independent auditor. DFID will review performance against its expectations for this intervention annually for the period of its contribution.

15. Contact

15.1 The World Bank Group Team at the Department for International Development, email: WorldBankGroupTeam@dfid.gov.uk can be contacted with any queries regarding the instrument.

15.2 Richard Teuten, Deputy Director for International Financial Institutions, at the Department for International Development can confirm that this Explanatory Memorandum meets the required standard.

15.3 The Secretary of State at the Department for International Development can confirm that this Explanatory Memorandum meets the required standard.