

**EXPLANATORY MEMORANDUM TO**  
**THE INTERNATIONAL FINANCE CORPORATION (GENERAL 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 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 Finance Corporation (“IFC”) not exceeding in the aggregate the equivalent of 261,749,000 United States Dollars (USD). This is towards the subscription to 261,749 of IFC shares allocated to the United Kingdom in the IFC General Capital Increase endorsed by Governors in April 2018, pending adoption of the relevant resolution.

**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 for English Laws)*

- 3.2 The territorial application of this instrument includes Scotland and Northern Ireland and 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 Finance Corporation (General Capital Increase) Order 2019 are compatible with the Convention rights.”

**6. Legislative Context**

- 6.1 The Order would authorise the UK Government to make a payment to IFC not exceeding in the aggregate the equivalent of 261,749,000 USD, pending adoption of the relevant resolution by Governors and agreement to an instrument of subscription. The payments are expected to be made over a five-year period following the date of

the resolutions coming into effect, with the possibility of extension to six years by agreement of the Board of Directors.

- 6.2 This payment would enable the United Kingdom's subscription to 261,749 of IFC shares allocated to it in the IFC General Capital Increase (GCI) endorsed by IFC Governors in April 2018.
- 6.3 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.

## 7. Policy background

### *What is being done and why?*

- 7.1 IFC was established in 1956 and is owned by its 184 member countries. IFC is part of the World Bank Group (WBG) and its interventions support the overarching goals of the WBG is to end extreme poverty and to promote shared prosperity. It does this by providing loans, equity investments, risk finance and advisory services to the private sector in developing countries. The IFC funds its activities from capital and reserves, the repayment of past loans, investment income, investment disposals, and through charging for advisory services. IFC is targeting delivery of the following results between July 2016 and June 2019:
  - 98 million clients to benefit from enhanced financial access;
  - 26 million people to benefit from improved health and education;
  - 22 million metric tons of greenhouse gas emissions reductions; and
  - 3 million people to benefit through increased sustainable farming jobs.
- 7.2 IFC Governors have endorsed plans to increase IFC authorised capital through the allocation and subscription to 5,499,993 additional shares at a value of 1,000 USD per share. The additional 5,499,993,000 USD from shareholders would be expected to strengthen IFC's financial capacity to create markets, further support private sector investment in poorer or fragile and conflict-affected countries, and tackle global challenges such as climate change.
- 7.3 The expansion in IFC capital will be expected to support progress towards the Sustainable Development Goals and the United Kingdom's wider development, security and prosperity objectives, including in the following areas:
- 7.4 **Strengthening global peace, security and governance.** Increasing IFC support for the poorest (IDA-eligible) and fragile countries to 40% of its total support by 2030, compared to a baseline of 24%, supporting economic development and opportunities that will reduce potential sources of instability.
- 7.5 **Strengthening resilience and response to crises.** Increasing IFC investment in projects with climate change benefits to 35% of IFC support by June 2030, compared with the WBG wide ambition of 28% of support for projects with climate change benefits by 2020.
- 7.6 **Promoting global prosperity.** IFC expects to increase the private finance it mobilises from around 70 percent of its own commitments to 90 percent by 2030, which will support private investment and economic development.

- 7.7 **Tackling extreme poverty and helping the world's most vulnerable.** In addition to increasing its support to the poorest countries, IFC will quadruple the amount of IFC financing dedicated to women and women-led Small and Medium Enterprises (SMEs) by 2030.
- 7.8 **Delivering value for money and efficiency.** IFC will pursue further efficiency gains, including from compensation.
- 7.9 The 5,499,993 of IFC additional shares will be allocated through: a GCI in which 4,579,995 shares are allocated on a pro rata basis based on IFC shareholdings; and a Selective Capital Increase (SCI) in which 919,998 shares are allocated to shareholders in proportions that do not match their existing shareholding in order to adjust the relative shareholdings. As part of the GCI, the United Kingdom was allocated 261,749 of additional IFC shares. IFC shares are denominated in USD with a par value of 1,000 USD and share subscriptions to the additional shares in the GCI are payable in USD or in freely convertible currency of equivalent USD value. The United Kingdom would contribute 261,749,000 USD or USD equivalent, pending adoption of the relevant Resolution enabling the CGI by Governors.
- 7.10 A central aim of the SCI was to better align IFC shareholding with that of the World Bank's International Bank for Reconstruction and Development which better reflects the relative economic weight of shareholders. As the United Kingdom's shareholding in IBRD is lower, the United Kingdom was not allocated any SCI shares.
- 7.11 As the United States has indicated that it does not plan to participate in the Capital Increases, the United Kingdom's shareholding is expected to marginally increase from 4.72% to 4.73% even though it will not participate in the SCI.

## **8. Consolidation**

- 8.1 Not relevant in the context of this instrument.

## **9. Consultation outcome**

- 9.1 Not relevant in the context of this instrument.

## **10. Guidance**

- 10.1 Not relevant in the context of this instrument.

## **11. Impact**

- 11.1 There is no expected impact on business, charities or voluntary bodies.
- 11.2 There is no expected impact on the public sector.
- 11.3 An Impact Assessment has not been prepared for this instrument because there is expected to be limited direct impact in the United Kingdom.

## **12. Regulating small business**

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

## **13. Monitoring & review**

- 13.1 IFC will monitor and report to the WBG Board on its performance in relation to the financial and policy commitments made as part of the GCI. The Independent Evaluation Group (IEG) will continue to evaluate IFC effectiveness. IFC'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.

**14. Contact**

- 14.1 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.
- 14.2 Richard Teuten, Deputy Director for International Financial Institutions, at the Department for International Development can confirm that this Explanatory Memorandum meets the required standard.
- 14.3 The Secretary of State at the Department for International Development can confirm that this Explanatory Memorandum meets the required standard.