EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL FINANCE CORPORATION (GENERAL CAPITAL INCREASE) ORDER 2020

2020 No. 1442

1. Introduction

1.1 This explanatory memorandum has been prepared by the Foreign, Commonwealth and Development Office (FCDO) and is laid before House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 The Order permits Her Majesty's Government to make payments to the International Finance Corporation (the 'IFC') not exceeding in the aggregate the equivalent of 261,749,000 United States Dollars (USD). These payments are towards the subscription to 261,749 IFC shares allocated to the United Kingdom in the IFC General Capital Increase in accordance with Resolution No. 272 adopted by the IFC Board of Governors on 16 April 2020 (the '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 is the United Kingdom.

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 James Duddridge MP, Parliamentary Under Secretary of State, Foreign, Commonwealth and Development Office, has made the following statement regarding Human Rights:

"In my view the provisions of the International Finance Corporation (General Capital Increase) Order 2020 are compatible with the Convention rights."

6. Legislative Context

6.1 The Order authorises the UK Government to make payments to IFC not exceeding in the aggregate the equivalent of 261,749,000 USD, in accordance with Resolution No. 272 adopted by the IFC Board of Governors on 16 April 2020. The payments are expected to be made over a five-year period from the date of the Resolution coming into effect, with the possibility of extension to six years by agreement of the Board of Directors.

6.2 The Order is made under section 11 of the International Development Act 2002, which empowers the Government to make relevant payments to multilateral development banks where it is bound to do so. In order to make such a payment the Secretary of State for Foreign, Commonwealth and Development Affairs (the 'Secretary of State'), or a Minister acting on their behalf, must make an Order, which has HM Treasury approval and has been approved in draft by the House of Commons.

7. Policy background

What is being done and why?

7.1 The IFC was established in 1956 and is owned by its 184 member countries. The IFC is part of the World Bank Group (WBG) and its interventions support the overarching goals of the WBG which are 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.

7.2 IFC Governors agreed 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 support the United Kingdom's development, security and prosperity objectives. It will strengthen IFC's financial capacity to create markets, further support private sector investment in poorer or fragile and conflict-affected countries, and to tackle global challenges such as climate change, and to support progress towards the Sustainable Development Goals. Specifically, it is expected to support:

- **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.
- **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.
- **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.
- **Tackling extreme poverty and helping the world's most vulnerable.** In addition to increasing its support to the poorest countries, the IFC will quadruple the amount of IFC financing dedicated to women and women-led Small and Medium Enterprises (SMEs) by 2030.
- **Delivering value for money and efficiency.** The IFC will pursue further efficiency gains, including from staff compensation.

7.3 The 5,499,993 of additional IFC 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 an amount not exceeding 261,749,000 USD or equivalent in accordance with Resolution No. 272 approved by IFC Governors in April 2020. A copy of Resolution No. 272 has been laid in the House of Commons library.

7.4 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 (IBRD), which more closely reflects the relative economic weight of shareholders. As the United Kingdom's shareholding in IBRD was lower than in the IFC, the United Kingdom was not allocated any IFC shares through the SCI.

7.5 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. 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 / 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 expected to be no significant, impact on business, charities or voluntary bodies.

12.2 There is expected to be no significant, impact on the public sector.

12.3 An Impact Assessment has not been prepared for this instrument because no significant direct impact on businesses in the UK is foreseen.

13. Regulating small business

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

14. Monitoring & review

14.1 The 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 the IFC's effectiveness. The IFC's financial data is audited by an external and independent auditor. FCDO will review performance against its expectations for this intervention annually for the period of its contribution.

14.2 The United Kingdom is represented on the Board of Governors by the Secretary of State. The United Kingdom Executive Director to the WBG represents the United Kingdom and oversees the use of WBG resources as a member of the WBG Board of Directors.

14.3 The Order does not include a statutory review clause because it has no regulatory effect on business.

15. Contact

15.1 The World Bank Group Team at FCDO (WorldBankGroupTeam@fcdo.gov.uk) can be contacted with any queries regarding the instrument.

15.2 Phil Stevens, Deputy Director for International Financial Institutions, at FCDO can confirm that this Explanatory Memorandum meets the required standard.

15.3 James Duddridge MP, Parliamentary Undersecretary of State at FCDO can confirm that this Explanatory Memorandum meets the required standard.