EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (SELECTIVE CAPITAL INCREASE) ORDER 2011

2011 No.

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

2. Purpose of the instrument

2.1 This proposed Order permits the Secretary of State for International Development to make a payment to the International Bank for Reconstruction and Development ("IBRD") not exceeding in the aggregate the equivalent of 14,078,104.50 United States Dollars towards the increased authorised capital stock of IBRD. This payment will be made pursuant to arrangements made with IBRD in accordance with Resolution No 612 adopted by the Board of Governors of IBRD on 16th March 2011. The purposes of the Selective Capital Increase are to increase the capital stock of IBRD and to enhance voice and participation of developing and transition countries.

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

3.1 None.

4. Legislative Context

4.1 The proposed Order is being made to enable the Secretary of State to contribute further to the authorised capital stock of IBRD by subscribing to additional shares. The purpose of this further contribution, together with contributions pledged by other donors, is to increase the capital base of IBRD through the process known as a Selective Capital Increase (SCI). This will enable IBRD to increase its capability to reduce poverty in middle-income countries (MICs) and creditworthy low income countries by making loans to those countries and making loans to and equity investments in private sector organisations. It will also serve ensure to the UK's influence at the World Bank by retaining the UK's single country seat at the World Bank Board.

4.2 Where the Government of the United Kingdom becomes bound to make a payment to a multilateral development bank, Section 11 of the International Development Act 2002 permits the Secretary of State to make a payment to that bank, once he has made an order with the approval of the Treasury, a draft of which has been approved by the House of Commons.

4.3 IBRD is issuing additional shares to support its forward lending strategy. It is doing so through the combination of SCI and General Capital Increase (GCI), the subject of a separate order. The UK currently holds 4.32% of the shares in IBRD and the Government wishes to maintain a strong shareholding in IBRD. The UK has been allocated 1,945 shares for purchase at a cost of 234,635,075 United States Dollars. Under the terms of this share issue, of the allocated shares, 5.9% must be paid for at a cost of

14,078,104.50 United States Dollars. This is known as the 'Paid in Capital' and it is this amount that is covered by this Order. The remainder 220,556,970.5 United States Dollars will be 'callable' (i.e. a contingent liability). Parliamentary approval to incur this liability is obtained by the separate process explained below.

4.4 It is normal practice, when a government department proposes to undertake a contingent liability in excess of £250,000 for which there is no specific statutory authority, for the department concerned to present to Parliament a Minute giving particulars of the liability created and explaining the circumstances; and to refrain from incurring the liability until fourteen parliamentary sitting days after the issue of the Minute, except in cases of special urgency.

4.5 The Treasury has approved the proposal to undertake this contingent liability in principle and the Minute has been laid in Parliament, together with this draft Order. If, during the period of fourteen parliamentary sitting days, beginning on the date the Minute was laid, a Member signifies an objection by giving notice of a Parliamentary Question or by otherwise raising the matter in Parliament, final approval to proceed with incurring the liability will be withheld pending an examination of the objection.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 Andrew Mitchell, 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 2011 are compatible with the Convention rights.

7. Policy background

7.1 The International Bank for Reconstruction and Development is part of the World Bank. IBRD aims to reduce poverty in MICs and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. Established in 1945 as the original institution of the World Bank Group, IBRD is structured as a cooperative that is owned and operated for the benefit of its 187 member countries.

7.2 The other organisations that make up the World Bank Group are the International Development Association (IDA), the International Finance Corporation (IFC) the Multilateral Investment Guarantee Agency (MIGA)) and the International Centre for the Settlement of Investment Disputes (ICSID). The overarching goal of the Group is to reduce poverty and improve living standards by supporting sustainable growth and investment in people.

7.3 IBRD delivers flexible, timely and tailored financial products, knowledge and technical services, and strategic advice to help its members achieve results. Through the World Bank Treasury, IBRD clients also have access to capital on favourable terms in larger volumes, with longer maturities, and in a more sustainable manner than world

financial markets typically provide. MICs, where 70 percent of the world's poor live, have made profound improvements in economic management and governance over the past two decades and are rapidly increasing their demand for the strategic, intellectual and financial resources the World Bank has to offer. The challenge facing IBRD is to better manage and deliver its resources to best meet the needs of these countries.

7.4 A SCI and a GCI were proposed by G20 leaders at the Pittsburgh Summit in September 2009. Shares in the IBRD are denominated in US dollars and shareholders agreed to increase the capital base by 86.2 billion United States Dollars in Spring 2010 with 5.1 billion of this figure to be paid-in capital. The UK's share of the paid in capital for the SCI is 14,078,104.5 United States Dollars and the paid in capital for the GCI is 137,972,662.20 United States Dollars.

7.5 For the GCI each member will be allocated shares in proportion to their shareholding. For the SCI, new shares have been allocated in accordance with the 2010 voting reform of IBRD, to adjust shareholding to better reflect the economic weight of members including increasing the voting share of developing and transition countries by 3.13% to 47.19%. As a result of the SCI our overall position in the ranking of shareholders will fall to joint 5th (joint with France) from 4th. At the 5th position we will retain our single country seat at the World Bank Board.

7.6 The GCI addresses IBRD's need for a stronger capital base. IBRD funds its lending from its capital and reserves, repayments of past loans, and investment income. IBRD requires a stronger capital base in order to respond effectively to the economic crisis and its lasting impacts. The GCI and SCI combined will enable IBRD increase its sustainable lending level from $10-13 billion to $15-20 billion in the medium term.

7.7 The agreement on the GCI and SCI also helped to deliver a package of reforms at IBRD to improve its operational effectiveness and efficiency, including a number of commitments to improve the speed and quality of its operations. This includes a commitment to transfer excess Bank capital to the IDA, the part of the World Bank that lends to low income countries, once IBRD's leverage level returns to normal.

7.8 Shares in IBRD are denominated in US dollars. The purchase of the shares will be in US dollars over the subscription period (2011-2015).

7.9 IBRD adopted resolution 612 on 16th March 2011. If this Order is approved in accordance with resolution 612, the United Kingdom's paid-in contribution can either be made in 4 annual instalments from 2011 to 2015 or paid up-front. The Order further provides that the Secretary of State may make payments to maintain the value of the subscription to the increased authorised capital stock.

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 An Impact Assessment has not been prepared for this instrument because there is no impact on business, charities or voluntary bodies in the United Kingdom.

11. Regulating small business

11.1 The legislation does not apply to small business in the United Kingdom.

12. Monitoring and review

12.1 IBRD provides annual reports and accounts in September. The reports are based on IBRD's own evaluation of its performance. IBRD is moving towards using a Corporate Scorecard to measure its performance. In addition, IBRD's activities are independently evaluated by the Independent Evaluation Group (IEG). IBRD's financial data is audited by an external and independent auditor.

12.2 The UK is represented on the Board of Governors by the Secretary of State for International Development Andrew Mitchell. We also have a representative in the executive directors, who sits on the Executive Board of IBRD.

12.3 The World Bank has agreed to report against a Results Measurement System that sets out what we can expect IDA 16 to deliver, both in terms of development impact and improvement s in operational performance. DFID monitor IBRD's performance as part of its continuous engagement with the World Bank. A Logical Framework to monitor progress against a set of performance indicators will be available on DFID's public website. This annual review will be available on DFID's public website.

13. Contact

13.1 Further information concerning the proposed instrument can be obtained from Siobhan Clifford at the Department for International Development via email: (s-clifford@dfid.gov.uk) or telephone (020 7023 0547).