

NATIONAL INTEREST ANALYSIS: CATEGORY 1 TREATY

International Bank for Reconstruction and Development (IBRD) General Capital Increase and Selective Capital Increase

(Washington DC, 1 October 2018)

[2020] ATNIA 3

[2020] ATNIF 4

Nature and timing of proposed treaty action

1. The proposed treaty action is the subscription to shares in the International Bank for Reconstruction and Development (IBRD), under the terms and conditions outlined in IBRD *Resolution No. 663 (2018 General Capital Increase)* and *Resolution No. 664 (2018 Selective Capital Increase)* (respectively, the “GCI Resolution”, “SCI Resolution”, and collectively “the Resolutions”). The parties to this treaty are the IBRD and Australia.
2. The *Articles of Agreement of the International Bank for Reconstruction and Development* (the IBRD Articles) permit increases of capital in the organisation, under rules prescribed by the IBRD (Article II, sections 3(b) and (c)). In line with these rules, on 1 October 2018 the Governors of the World Bank adopted the Resolutions to increase the capital available to the IBRD. The Resolutions allow each member of the IBRD to increase their shareholding in the Bank by specified amounts. The Resolutions also set conditions for the additional capital subscriptions. The Treasurer, as Australia’s Governor to the World Bank Group, voted in favour of the Resolutions.
3. The IBRD capital increases are made up of general and selective capital increases. The general capital increase allows countries to subscribe to additional shares in proportion to their existing share of capital. The selective capital increase allows some countries to increase their share of capital beyond their historical proportional allocation, therefore increasing their relative shareholding and voting power.
4. Australia will be able to subscribe up to its full allocation of shares under the capital increase until October 2023, with extensions to this timeframe allowed under circumstances outlined in the Resolutions. If, after that period, Australia has not taken up its allocation, the shares will become unallocated capital stock. Shares and voting rights will only be provided after payment is made.

Overview and national interest summary

5. A well-capitalised, more efficient IBRD is better placed to support sustained economic development and regional stability in the Indo-Pacific region. The capital increase package will give the IBRD greater capacity to mitigate impacts of economic shocks and systemic crises and allow for increased responsiveness to risks to global security and stability arising from conflicts and climate-related events. This has tangible benefits for Australia. A strong and stable region is fundamental to Australia’s national security interests; while economic prosperity in our near neighbours creates welcome opportunities for Australian exporters and jobs.

6. Importantly, increasing the capital base of the IBRD allows it to remain an attractive source of quality financing for all its clients, with finance products that meet best practice standards on procurement, debt sustainability, and environmental and social safeguards. It is in Australia's interests to ensure countries in our region have a choice of sources of high quality finance products to meet their development needs.
7. Australia currently holds shares in the IBRD equivalent to 1.3 per cent of voting power. Australia's proposed paid-in contribution to the IBRD capital increase is around \$154 million payable over four years, for an additional 7,462 shares. As almost all IBRD member countries are also increasing their shareholding, this increased shareholding will result in approximately the same level of voting power for Australia. Maintaining our voting power will ensure Australia retains its ability to influence the policies and priorities of the IBRD, and will help ensure that the activities of the IBRD continue to target the key development priorities of the Indo-Pacific region.

Reasons for Australia to take the proposed treaty action

8. The IBRD is an organisation within the World Bank Group. It is an international organisation established under a multilateral treaty – the IBRD Articles. It is owned by 189 member countries, including Australia. Australia has been a party to the IBRD Articles since 1947.
9. The World Bank Group is the world's largest multilateral institution providing development finance. It plays a central role in the international rules-based order, and in setting best practice standards on procurement, environmental and social safeguards, and debt sustainability. Australia leverages the technical expertise, geographic reach and financing capabilities of the World Bank to achieve development outcomes that could not be achieved by acting alone.
10. As a key pillar of the World Bank Group, the IBRD provides financial products and policy advice to help middle-income and creditworthy low-income countries reduce poverty and extend the benefits of sustainable growth. The IBRD's policy-based loans support policy and institutional reforms and build institutional capacity, leading to better development outcomes and sustainable economic growth.
11. The Indo-Pacific region has been a strong beneficiary of IBRD programs. In 2018-19 the World Bank Group committed around US\$20 billion to finance development investments in the Indo-Pacific, of which US\$8 billion was from the IBRD.
12. The IBRD capital increase will increase the resources IBRD has available to carry out its mandate. Under the 2018 capital increase package, IBRD's paid-in capital will increase by US\$7.5 billion, and its callable capital will increase by US\$52.6 billion. The IBRD capital increase is part of a broader package which included a suite of institutional reforms to maximise internal efficiencies and effectiveness. Without the increase, the IBRD would be required to reduce its lending and technical assistance operations, including in the Indo-Pacific.
13. Australia is a highly valued partner of the World Bank Group. Australia's activism on the Bank's governing bodies, in headquarters and regional offices, helps to ensure that the Bank's strategic priorities are well aligned with Australia's development policy objectives, greater resources are allocated to the Indo-Pacific region and that the vulnerabilities, development challenges and economic potential of our region are better understood. Increasing Australia's capital subscription allows Australia to maintain our

voting share and our ability to influence IBRD policies and priorities, and to ensure that IBRD's activities recognise and actively target key development priorities of interest to Australia and our neighbours in the Indo-Pacific region.

Obligations

14. Paragraph 2 of the GCI Resolution permits Australia to purchase 3,243 shares of the capital stock of the IBRD, with a par value for each share equivalent to US\$120,635 (paragraph 1). Paragraph 2 of the SCI Resolution authorises Australia to subscribe up to 4,219 additional shares at the same par value. Australia will take up this full allocation of shares under both the Resolutions, and will purchase a total of 7,462 additional shares in the IBRD.
15. In order to meet the requirements of paragraph 3(e) of the GCI Resolution and paragraph 3(f) of the SCI Resolution, Australia will be required to have taken all action necessary to authorise such subscriptions and shall furnish to the Bank any information it may request; make the payments for the additional shares; and ensure that the portion of paid-in capital paid for in Australian dollars is immediately available for the IBRD's use. Paragraph 3 of the Resolutions also outline the timeframe for subscription (five years from the date the Resolutions were adopted, unless extended under certain circumstances) and currencies for payment. Paragraph 4 of the GCI Resolution and paragraph 5 of the SCI Resolution outline the circumstances in which voting and other rights may be suspended. Paragraph 5 of the GCI Resolution and paragraph 6 of the SCI Resolution specify that shares that are not subscribed and paid for within the specified timeframes for payment will become unallocated capital stock.

Implementation

16. Amendments to the *International Monetary Agreements Act 1947* (the IMA Act) will establish a framework for implementation of this and subsequent capital increases. Provisions within the IMA Act currently refer to the previous acquisition of shares of capital stock in the IBRD. The amendments will remove the references to the previous acquisition and will provide the Minister with a more general ability to subscribe, on behalf of Australia, to additional shares in the capital stock at the IBRD, under terms and conditions that are determined by the Minister. This approach is consistent with other provisions within the IMA Act.
17. Australia will subscribe to the shares by first depositing its Instrument of Subscription. The Government will then make its first payment towards the capital subscription.

Costs

18. Only twenty percent of the general capital increase share allocations, and six percent of the selective capital increase share allocations, need to be "paid-in". Australia's paid-in capital instalments will therefore be \$154 million over four years, starting in 2020.
19. The remainder of the capital subscription is made up of "callable capital", which can be called on by the IBRD. The amount of Australian funds that is callable capital will increase by \$1,016.2 million, adding to the around \$4.7 billion of callable capital currently allocated to Australia. The callable capital component of \$1,016.2 million will

be reflected in the Government's Statement of Risks. No multilateral development bank has ever exercised its right to call on its callable capital.

20. There are no regulatory costs associated with this treaty action.

Future treaty action

21. The Resolutions do not provide for any future capital increases or any future treaty actions. Any IBRD capital increase in the future would be subject to its own terms and conditions.

Withdrawal or denunciation

22. The Resolutions do not include any specific provisions with respect to termination of the subscription of shares.

23. The IBRD Articles specify that any member may withdraw from the IBRD at any time by transmitting a notice in writing to the IBRD at its principal office. Withdrawal shall become effective on the date such notice is received. At the time a government ceases to be a member, the IBRD shall arrange for the repurchase of its shares as a part of the settlement of accounts.

24. Withdrawal from the IBRD would likely lead to Australia's withdrawal from the WBG's International Development Association (IDA) and International Finance Corporation (IFC), as well as the Multilateral Investment Guarantee Agency (MIGA), given membership in these organisations is conditional on membership in the IBRD.

25. A decision to withdraw from the IBRD would be subject to Australia's domestic treaty-making process, including tabling in Parliament and consideration by JSCOT.

26. If a member fails to fulfil any of its obligations to the IBRD, the IBRD may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by the same majority to restore the member to good standing.

Contact details

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ATTACHMENT ON CONSULTATION

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CONSULTATION

27. A formal domestic consultation process was not undertaken prior to Australia endorsing the IBRD capital increase and agreeing to participate in the capital raising. Consultation was considered unnecessary on the basis that there were no domestic stakeholders who would likely be affected by the proposed amendments. Australia's position on the capital increase was clearly stated in the public domain and interested parties were afforded transparency through publicly available documents and statements, including in the 2018-19 Mid-Year Economic Fiscal Outlook - *Appendix A: Policy decisions taken since the 2018-19 Budget*.