

NATIONAL INTEREST ANALYSIS: CATEGORY 1 TREATY

International Finance Corporation General Capital Increase

(Washington DC, 16 April 2020)

[2020] ATNIA 7

[2020] ATNIF 9

Nature and timing of proposed treaty action

1. The proposed treaty action is the subscription to shares in the International Finance Corporation (IFC) of the World Bank Group (WBG) under the terms and conditions outlined in IFC *Resolution No. 272 (2018 General Capital Increase)* (the Resolution).
2. The *Articles of Agreement of the International Finance Corporation* (the IFC Articles) permit increases in capital stock at any time as authorised by a majority of the Board of Governors (Article II, section 2(c)). In line with this, on 16 April 2020 the Board of Governors adopted the Resolution to allow members of the IFC to increase their shareholding by the specified amounts. The Treasurer, as Australia's Governor to the World Bank Group, voted in favour of the Resolution.
3. Australia will be able to subscribe up to its full allocation of shares until April 2023. If, after that period, Australia has not taken up its allocation, the shares will become part of the IFC's unallocated capital stock.

Overview and national interest summary

4. A well-capitalised IFC is better placed to support economic development and regional stability. Increasing the IFC's capital base allows it to take on more risk, enabling it to have a greater presence in fragile and vulnerable states, including in the Indo-Pacific region. Without the increase, the IFC would be required to reduce its lending operations.
5. It is in Australia's interests to ensure that economies in our region have access to a range of sustainable financing options. Increasing the IFC's capital base ensures it will remain an attractive source of finance to private enterprise, helping to maintain debt sustainability within our immediate region and the broader global economy. Economic prosperity in our near neighbours creates welcome opportunities for Australian exporters and jobs. Increased private sector development also assists countries to transition away from concessional financing in the long term.
6. This capital increase will also support the development of robust and sustainable private sector economies through the IFC's engagement and advisory services to businesses and governments.

Reasons for Australia to take the proposed treaty action

7. The IFC is an international organisation within the WBG. It is owned by 184 member countries, including Australia. Australia has been a party to the IFC Articles since 1956.
8. The WBG 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.
9. The IFC provides investment, advisory and asset management services to encourage private sector development in developing countries. The IFC promotes open and competitive markets in developing countries and catalyses other sources of finance for private development. IFC activities support the WBG goals of eradicating poverty and ensuring shared prosperity.
10. Australia's shareholding in the IFC enables Australia to influence its policies and priorities and ensure that it recognises and actively targets key development priorities of interest to Australia. In particular, IFC lending supports Australia's ambition of encouraging more private sector investment in infrastructure to help meet the significant infrastructure needs of the Indo-Pacific region.

Obligations

11. Paragraph 2 of the Resolution permits Australia to purchase 102,370 shares of the capital stock of the IFC. Australia will take up the full allocation of shares.
12. Paragraph 4 of the Resolution sets out the terms and conditions of the subscription. Paragraph 4 requires that each subscription be made by the subscribing member depositing an Instrument of Subscription with the IFC no later than the third anniversary of the date of effectiveness of the increase in the authorized capital of the IFC. This means that, by 16 April 2023, Australia must deposit an Instrument of Subscription:
 - subscribing to the total number of shares specified in its Instrument of Subscription;
 - indicating that it will pay for the total number of shares in a manner consistent with the wording of the Resolution;
 - representing to the IFC that it has taken all action necessary to authorized such subscription; and
 - undertaking to furnish information in relation to the matters specified in paragraph 4(b) at the IFC's request.
13. Each share has a par value equivalent to US\$1,000 (paragraph 1). The Resolution requires payment for shares to be made in a freely convertible currency (paragraph 4(c)) prior to the fifth anniversary of the date of effectiveness of the increase in the authorized capital of the IFC (paragraph 4(d)). This means that Australia must pay for its full allocation of shares by 15 April 2025. Shares of capital stock will be issued as and when payments are made (paragraph 4(f)).

Implementation

14. Amendments to the *International Finance Corporation Act 1955* (IFCA) will establish a framework for implementation of this and subsequent capital increases.

15. These amendments will authorise the subscription by Australia to additional shares in the capital stock at the IFC. In addition, the amendments will remove the need for further legislative amendments to authorise future share subscriptions to the IFC. The amendments will provide the Minister with a more general ability to subscribe to additional shares in the capital stock of the IFC on behalf of Australia, under terms and conditions that are determined by the Minister. This approach is consistent with similar provisions in other legislation, including the *International Monetary Agreements Act 1947*.
16. Australia will subscribe to the shares by first depositing its Instrument of Subscription. The Government will make its first payment towards the capital subscription by 30 June 2020, or as soon as possible thereafter.

Costs

17. Australia's subscription to the IFC capital increase is \$144 million payable over five years.
18. There will be no regulatory impact as a result of this treaty action and therefore are no regulatory costs associated with it.

Future treaty action

19. The Resolution does not provide for any future capital increases or any future treaty actions. Any future capital increase would be a treaty action and so subject to Australia's domestic treaty process.

Withdrawal or denunciation

20. The Resolution does not include any specific provisions with respect to termination of the subscription of shares.
21. The IFC Articles enable members to withdraw from the IFC at any time by transmitting a notice in writing to the IFC at its principal office. Withdrawal shall become effective on the date such notice is received. The IFC shall arrange for the repurchase of shares as a part of the settlement of accounts.
22. A decision to withdraw from the IFC would be subject to Australia's domestic treaty-making process, including tabling in Parliament and consideration by JSCOT.
23. If a member fails to fulfil any of its obligations to the IFC, the IFC 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

Amendments to the *International Finance Corporation Act 1955* in order to facilitate an additional capital contribution to the International Finance Corporation, agreed in Washington DC on 16 April 2020.

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CONSULTATION

24. A formal domestic consultation process was not undertaken prior to Australia endorsing the IFC capital increase and agreeing to participate in the capital raising. Consultation on this treaty action was considered unnecessary on the basis that there are no domestic stakeholders who would likely be affected by the proposed amendments. Australia's position on these issues is 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*.