

1988

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA
HOUSE OF REPRESENTATIVES

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(SHARE INCREASE) BILL 1988

EXPLANATORY MEMORANDUM

(Circulated by authority of the Treasurer the
Hon Paul Keating, MP)

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(SHARE INCREASE) BILL 1988**

OUTLINE

This Bill empowers the Treasurer to make the necessary agreements on behalf of Australia to purchase 178 additional shares of the capital stock of the International Bank for Reconstruction and Development.

The Bill empowers the Treasurer to make these agreements on such terms and conditions as the Treasurer determines and, where appropriate, to issue securities in payment. The Bill also appropriates the funds necessary to make payments under these agreements.

FINANCIAL IMPACT STATEMENT

The cost of Australia's subscription will be \$US1.88 million spread over four financial years 1988/89-1991/92.

Clause 1 - Short title

This clause is self-explanatory.

Clause 2 - Commencement

This clause is self-explanatory.

Clause 3 - Interpretation

This clause is self-explanatory.

Clause 4 - Agreements for purchase of additional shares of capital stock of the Bank.

This clause enables the Treasurer to make appropriate arrangements with the Bank regarding terms and conditions of the subscription by Australia.

In May 1986, the Board of Governors of the International Bank for Reconstruction and Development (IBRD) adopted Resolution 410 (Increases in Certain Subscriptions to Capital Stock) which allocated shares of IBRD capital to certain members facing a loss of relative voting power. A copy of the Resolution is reproduced on pages 5 to 9.

The IBRD Articles of Agreement express the Bank's capital in terms of 1944 US dollars. Since 1 April 1978, the effective date of the Second Amendment of the IMF Articles of Agreement, currencies no longer have par value in terms of gold and the pre-existing basis for translating the 1944 US dollars into members' currencies has ceased to exist. The Board of Executive Directors recently approved a new standard of value for IBRD capital; the 1974 Special Drawing Right (SDR) valued at \$US1.20635. The Board also decided to reintroduce maintenance of value (MOV) payments on subscribed capital, based on movements since the establishment of the Bank in the value of national currencies against the standard of value.

Under Resolution 410 Australia is entitled to subscribe to 178 shares. To subscribe to the capital increase, the Treasurer, as Governor for Australia of the Bank, is required to submit an "Instrument of Subscription" setting out the number of additional shares to which Australia will subscribe on the terms and conditions laid down in the Resolution. The Treasurer is required to state that all action necessary to authorise the subscription has been taken and to furnish to the Bank such information concerning the subscription as the Bank may request.

Of the total subscription price of the shares, 8.75 per cent (\$US1.88 million) is the paid-in portion and represents the financial cost to Australia. The balance of 91.25 per cent will remain on call. Of the paid-in portion, 10 per cent (\$US0.19 million) must be in the form of gold or US dollars and the balance (\$US1.69 million) in Australian dollars. This amount can be paid either in cash in a lump sum or by substituting a promissory note for the amount. The promissory note would be encashed on demand as and when the Bank required the funds or else as otherwise agreed with Australia.

A promissory note enables payment to be made over a period of about 4 years. Consistent with past practice it is proposed to utilise the promissory note method of payment.

Owing to the reintroduction of MOV obligations, the outstanding amount on the promissory note denominated in \$A would be subject to MOV payments. It is therefore proposed subject to the agreement of the Bank, to denominate the promissory note in \$US thus avoiding significant future MOV obligations.

The callable portion of Australia's subscription under the Resolution (91.25 per cent valued at \$US19.59 million) may be called for payment only if required by the Bank to meet its obligations in respect of borrowings and guarantees. If the Bank continues to operate effectively in future - as we have every reason to expect - this situation is not expected to arise. In practice, the callable capital of the Bank serves as security for its own extensive borrowing operations on world capital markets. No calls have ever been made on this part of the Bank's capital in the past.

The total value of the 178 shares is \$US21.47 million.

Clause 5 - Appropriation and issue of securities

- (1) This part of the clause provides for appropriation of the moneys necessary to make payments to cover the purchases of additional shares of the capital stock of the Bank
- (2) This part of the clause provides the Treasurer with the authority to issue securities to the Bank.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENTRESOLUTION NO. 410Increases in Certain Subscriptions to Capital Stock

WHEREAS in their Report, dated May 24, 1984, entitled "Increase of \$7 Billion in Authorized Capital Stock and Special Increases in Subscriptions to Capital Stock," the Executive Directors have recommended that the Board of Governors adopt a resolution (herein called the Special Capital Increase Resolution) approving an increase of 70,000 shares in the authorized capital stock of the Bank and an increase in the subscriptions of certain members of the Bank to the capital stock corresponding to increases in such members' quotas in the International Monetary Fund under the Eighth General Review of Quotas;

WHEREAS, under the terms of the Special Capital Increase Resolution, the said Resolution would become effective only if all members waived their right to subscribe their proportionate share of the increase in the authorized capital stock, and all members have waived such right;

WHEREAS the Executive Directors in their Report to the Board of Governors dated July 31, 1984 have recommended that members facing a loss of relative voting power as a result of such Special Capital Increase be given an opportunity to maintain their relative voting power to the extent shares authorized and not allocated for subscription are available for this purpose, up to a total of 2,128 shares;

WHEREAS by Resolution No. 398, which became effective on September 12, 1984, the Board of Governors authorized increases in the

capital subscriptions of such members, up to a total of 600 shares, as a first step in the allocation process;

WHEREAS certain shares of the Bank's capital stock, which the following members were authorized to subscribe under previous resolutions of the Board of Governors, are now part of the authorized and unallocated capital stock of the Bank:

<u>Member</u>	<u>Resolution No.</u>	<u>Number of Shares</u>
Afghanistan	314	49
Afghanistan	346	49
Burundi	314	24
Burundi	346	24
Kampuchea, Dem.	314	40
Kampuchea, Dem.	346	40
Somalia	346	77
United Arab Emirates	395	598

WHEREAS the Executive Directors have recommended that the Board of Governors complete the allocation process begun under Resolution No. 398 by authorizing an increase of 1,000 shares in members' subscriptions and by authorizing the Executive Directors to permit further increases in members' subscriptions from time to time, up to a total of 528 shares, as and when the Executive Directors shall determine that a sufficient number of authorized but unallocated shares is available for the purpose, taking into account the requirements of the Bank's Articles of Agreement;

NOW THEREFORE the Board of Governors hereby resolves:

THAT, pursuant to Article II, Section 3 (b), of the Articles of Agreement of the Bank, the Bank is hereby authorized to accept additional subscriptions to shares of its capital stock upon the following conditions:

1. Each member of the Bank listed in the table below may subscribe up to the maximum number of shares of capital stock of the Bank set forth opposite its name in columns (1) and (2) of the said table, provided, however, that such member shall have notified the Bank in writing on or before June 23, 1986 of its intention to subscribe such shares:

	(1)	(2)		(1)	(2)
Afghanistan	3	1	Lesotho	6	3
Algeria	6	4	Liberia	2	2
Australia	117	61	Madagascar	1	1
Bahrain	1	-	Malawi	1	-
Bangladesh	19	10	Malaysia	9	5
Barbados	9	5	Maldives	6	3
Benin	-	1	Mali	3	1
Botswana	4	2	Mauritius	1	-
Burma	10	6	Morocco	28	14
Burundi	3	1	Nepal	10	5
Central African Rep.	1	1	New Zealand	32	17
Chad	1	-	Pakistan	31	16
Cyprus	10	6	Paraguay	3	-
Dominican Rep.	2	1	Philippines	25	14
Egypt, Arab Rep. of	38	19	Rwanda	2	2
Equatorial Guinea	1	1	Sierra Leone	3	1
Ethiopia	10	5	Somalia	2	2
Fiji	7	4	Sri Lanka	17	9
Gambia, The	1	1	Sudan	5	3
Ghana	9	5	Swaziland	7	4
Guinea	2	1	Syrian Arab Rep.	5	2
Guinea Bissau	-	1	Tanzania	2	1
Guyana	10	5	Thailand	15	9
Haiti	2	-	Turkey	14	8
Iceland	9	5	Vanuatu	7	4
India	384	204	Venezuela	8	3
Indonesia	47	24	Yemen, Peoples Dem. Rep.	6	3
Ireland	2	-	Zaire	9	5
Kampuchea, Dem.	5	2	Zambia	14	7
Lao People's Dem. Rep.	2	2	Zimbabwe	11	6

2. Upon the coming into effect of this resolution, each member may subscribe up to the number of shares set forth opposite its name in column (1) of the table in paragraph 1, above. In addition to such shares, each member may subscribe a portion of the shares set forth opposite its name in column (2) of the said table. The maximum number of shares each member may so subscribe shall be calculated by apportioning among the

members which shall have notified the Bank pursuant to paragraph 1, above, all shares in column (1) of the said table with respect to which members shall not have so notified the Bank. The Bank shall promptly notify each member of the additional shares such member may subscribe.

3. Each subscription authorized pursuant to paragraphs 1 and 2, above shall be on the following terms and conditions:

- (a) the subscription price per share shall be par;
- (b) a member may subscribe from time to time prior to September 1, 1988;
- (c) the subscribing member shall pay to the Bank (i) gold or United States dollars equal to 0.875 percent of the subscription price of the shares subscribed and (ii) an amount in its own currency equal to 7.875 percent of such subscription price;
- (d) the Bank shall call the amounts of the 2 percent and 18 percent portions of subscriptions which are not required to be paid under paragraph 3 (c) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it, and not for use by the Bank in its lending activities or for administrative expenses; and
- (e) before any subscription shall be accepted by the Bank, the following action shall have been taken:
 - (i) the member shall have taken all action necessary to authorize such subscription and shall furnish to the Bank such information thereon as the Bank may request; and

(ii) the member shall have made the payments provided for in paragraph 3 (c) above.

4. The Executive Directors shall be authorized to permit from time to time the members which shall have notified the Bank pursuant to paragraph 1, above, to subscribe such part of the shares of capital stock of the Bank set forth in column (2) of the table in paragraph 1, above, as members shall not have been authorized to subscribe pursuant to paragraph 2 hereof, as and when they shall determine, taking into account the requirements of the Articles of Agreement of the Bank, that a sufficient number of unallocated shares of the capital stock of the Bank is available for the purpose.

5. Each subscription authorized pursuant to paragraph 4 above shall be on substantially the same terms and conditions as those specified in paragraph 3 above, except that, notwithstanding the provisions of paragraph 3 (b), a member may subscribe the shares allocated to it from time to time during the period of 29 months immediately following the date of the decision of the Executive Directors to allocate the shares.

6. Shares, which members are authorized to subscribe under or pursuant to paragraphs 2 or 4 and which shall not have been subscribed prior to their respective subscription deadlines, shall be part of the Bank's authorized and unallocated capital stock and members may be authorized to subscribe them at a later date.

(Adopted on May 19, 1986)

