Working paper

Backstopping multilateral development banks

The fiscal context of callable capital for shareholder governments

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Key messages

MDB callable capital is an international treaty commitment – and hence a legal obligation – by all shareholder governments to support MDBs in case of a capital call.

Uncertainty remains surrounding the timing and procedures by which MDB shareholders would respond to a call and limit the benefit given by credit rating agencies to callable capital.

A number of governments have begun to clarify their budgetary procedures and accounting rules over the past year, revealing that over $60 billion could be made available in less than a month, far exceeding what would be needed in most realistic capital call scenarios.

Clarifying budgetary procedures to meet a call and reiterating the treaty commitment to MDB callable capital could greatly strengthen how it is viewed by credit rating agencies and would have no impact on the likelihood of a call. Shareholders who have not yet clarified their processes should aim to do so promptly.

No government is currently required to provision for callable capital, as the likelihood of a call falls far below the 50% probability provisioning threshold in most international accounting standards.

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About this publication

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Contents

Acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
CRA	credit rating agency
EBRD	European Bank for Reconstruction and Development
ESA	European system of accounts
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDB	multilateral development bank
RDB	regional development bank
UK	United Kingdom
US	United States

Introduction

Callable capital is an international treaty obligation with a nominal value of $891 billion across seven major multilateral development banks (MDBs).[1] It is a specialised type of guarantee committed by government shareholders as a last resort for repaying bond holders in the event of an extreme shock to MDB finances.

At a time when guarantees are becoming an increasingly common instrument in the development finance toolbox of major governments, callable capital represents the first guarantee-like instrument to have supported development finance. Despite its history, as a central pillar of the MDB financial model since 1944, very little is understood about callable capital.

A key factor fuelling this uncertainty is the process by which member governments would meet a hypothetical capital call. The major credit rating agencies have all noted that greater clarity on the budgetary processes surrounding callable capital could strengthen their view of this instrument in providing greater security to MDB bondholders. Irrespective of credit rating agencies, a more precise understanding would also strengthen the ability of shareholders and MDB management to evaluate the resilience of MDBs and incorporate the value of callable capital into financial planning, as proposed by the G20 Independent Panel on MDB Capital Adequacy Frameworks (2022).

To help fill this knowledge gap, this paper, part of a broader ODI project on callable capital (see Box 1), gathers information from 21 governments that collectively represent 59.5% of callable capital commitments ($530 billion) across the seven major MDBs.

Evidence for this paper was gathered in the first instance from interviews with and written input from ministries of finance and development cooperation.[2] Further information was obtained from publicly available documents relating to fiscal policy for each country, including national budget laws, accounting regulation, fiscal risk reports, budgeting standards and contingent liability evaluations.

[1] Total callable capital across the seven major MDBs: African Development Bank, Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Development Bank of Latin America, Inter-American Development Bank (IDB), the World Bank's International Bank for Reconstruction and Development (IBRD), and the European Bank for Reconstruction and Development (EBRD).

[2] We formally requested information from 30 countries (including all of the G20 plus a group of other countries chosen for high sovereign rating and/or size of MDB shareholding), but not all responded.

The paper is divided into three main sections. Section 1 provides a technical overview of how callable capital fits into budgetary frameworks. Section 2 discusses the policy implications for maximising the value of callable capital and for shareholder fiscal risk management. Section 3 provides a summary of the findings and recommendations.

Appendix 1 offers a detailed evaluation of 21 shareholder governments. For each country, three key themes are reviewed: (1) the accounting and budgetary treatment; (2) the process and timeline for responding to a call; and (3) any fiscal risk assessments where relevant.

Box 1 Maximising the developmental value of MDB callable capital

This paper is part of a year-long project investigating MDB callable capital, supported by the MDB Challenge Fund and undertaken by a research team based at ODI. The project will end in spring 2024 and comprises the following papers:

1. Making sense of hybrid capital for multilateral banks (Humphrey et al., 2023).
2. The legal underpinnings of MDB callable capital: implications and policy options (Humphrey, 2024).
3. **Backstopping multilateral development banks: the fiscal context of callable capital for shareholder governments**
4. How likely are multilateral development banks to need callable capital? Implications for risk frameworks and lending capacity (McHugh, 2024).
5. Enhancing multilateral development bank resilience and lending capacity: crisis management, recovery planning and improving loss-absorbing capacity (White and McHugh, 2024).
6. Maximising the developmental value of MDB callable capital: Project findings and path forward (Humphrey et al., 2023).

The project is led by Chris Humphrey (ODI senior research associate) and includes Chris McHugh (senior advisor, International Association of Credit Portfolio Managers), Eamonn White (director, Ardhill Advisory) and Bianca Getzel (ODI research officer).

1 Shareholder fiscal context of MDB callable capital

A clear understanding of the shareholder fiscal context of callable capital can enhance its value as a financial instrument, while also strengthening the fiscal risk management of member governments. This section and Table 1 provide an overview of the detailed analysis of the fiscal context of 21 governments presented in Appendix 1.

1.1 Accounting and budgeting

Callable capital is most often treated as a remote, off-balance-sheet contingent liability.

Contingent liabilities are uncertain but may lead to future expenditure if specific conditions are met or specific events occur. Callable capital is usually defined as a 'remote' contingent liability, based on the very low probability of a call. International Financial Reporting Standards, International Public Sector Accounting Standards, and Eurostat guidance recommend provisioning[3] for a contingent liability only if the likelihood of a call is deemed greater than 50–70%, which is far higher than the case for callable capital (see McHugh, 2024). Consequently, no government currently faces any requirement to provision for callable capital in their budgets. Only once an event is considered likely and a reasonable estimate of the loss can be quantified, would the expected loss be provisioned.

Some governments do not formally distinguish between a remote and non-remote contingent liability. In these rare cases (Indonesia, Japan, Mexico, Saudi Arabia), there is no explicit threshold to determine at what point provisioning would be required. Here, the ministry of finance qualitatively determines when to appropriate contingencies.

Regardless of whether or not funds have been appropriated, callable capital is usually disclosed to the legislature and in department accounts but does not appear on the budget. Countries generally aim to report contingent liabilities in a consistent manner throughout the fiscal cycle. Reporting on callable capital can be done through a variety of channels:

[3] For the purpose of this paper provisioning and appropriatiogn are used synomyously.

- Most countries report their callable capital commitments along with other contingent liabilities in their financial statements (Australia, Canada, New Zealand, and the United States). This is generally seen as a requirement for the countries following international accounting standards.
- Some countries (India, South Africa) report callable capital in their budget documents or debt reports.
- Increasingly, countries are preparing fiscal risk statements that include this information (Brazil, Indonesia).

Irrespective of a country’s chosen reporting standard, the International Monetary Fund (IMF) suggests that all information relating to a government’s contingent liability should be complete, submitted to the legislature in a timely manner, and made available to the public (IMF, 2017; 2016). Despite this, in the rare cases where callable capital is not routinely cited in any fiscal public document (Mexico, Japan), it is solely recorded in the acts acceding the government to the MDB and appropriating further general capital increases.

If a call were to take place, it would be recognised as a financial asset in the government budget and would be considered budget neutral in so far as the MDB recovers from the financial stress that led to a call.[4] Eurostat guidance (ESA 10 – which applies to all countries in th eEuropean Union) states that if callable capital was ever called, it should be recorded as an acquisition of ‘other equity’ (F.519). A similar budgetary treatment would also apply to countries following international accounting standards (Australia, Canada, Switzerland, New Zealand, UK, US). For countries with their own national accounting standards (South Africa, India, Indonesia), the budgetary treatment following a call remains unclear (see Section 2.2 for a detailed discussion).

1.2 Process and timeframe to respond to a call

Timing depends on whether funds are already appropriated, emergency expenditure powers are in place, or whether legislative approval is required.

Funds could be made available rapidly (in a matter of weeks) without the need to go through a parliamentary process. This expedited process could follow various paths (some countries have several avenues available to rapidly respond to a call, the choice of which would depend on the circumstances and the magnitude of a call):

- **Already-appropriated resources, estimated at $32.3 billion across five shareholder governments, can be disbursed in a matter of weeks and would not require approval from the legislature.** From 1945 until 1981, the US Congress

[4] This generally refers to cases where a call is triggered in a going concern context. See Humphrey (2024) for a discussion on whether an MDB capital call can be triggered in a going versus gone concern context.

regularly appropriated money to cover the callable portions of its capital subscriptions to the MDBs, amounting to around $12 billion ($7.7 billion for IBRD, $748 million for ADB and $3.8 billion for IDB). As part of the most recent IBRD capital increases, Canada appropriated $2.8 billion and Denmark appropriated $350 million in callable capital commitments. Australia has appropriated around $13.3 billion of its callable capital commitments through the special appropriation process included in Australia's legislation relating to MDB membership.

- **For another ten countries, emergency expenditure powers allow the relevant ministry overseeing the MDBs to respond to a call in less than a month by using available resources within contingency reserve funds without the need for parliamentary approval**. Across the ten[5] countries with contingency reserve funds, around $66.3 billion has been appropriated as part of the most recent budget cycle in the event of unforeseen expenses and/or the materialisation of contingent liabilities, including callable capital.
    - Since appropriations for reserve funds take place at the start of the financial year, this is when most funds would be available to respond to a call. Among the countries with reserve funds, the financial year starts in either January (Brazil, China, Denmark, Indonesia, Italy), April (India, Japan, UK) or July (Australia, New Zealand). Aside from times of crisis, these funds are rarely used.
    - Some countries such as Indonesia and Japan only have designated disaster contingency funds whose use should be reserved for states of emergency or during natural disasters. Although Japan has stated that these funds could be used to respond to a call, there is no indication that Indonesia's contingency funds could be used in this regard.
    - Contingency reserve funds are notional funds, meaning that a government would disburse funds directly via encashment or, in some instances, issue securities in lieu of payments (e.g., promissory notes) to meet a call on capital.
    - Beyond contingency reserve funds, New Zealand's MDB legislation provides permanent legislative authority to the minister of finance to respond rapidly to a call of up to $3.8 billion in less than a month.

[5] Australia, Brazil, China, Denmark, Italy, India, Indonesia, Japan, New Zealand, UK. In New Zealand the framework is referred to as Imprest Supply. The $94 billion was calculated using pre-Covid-19 appropriations to the UK Contingency Fund Account. Indonesia is also excluded from this calculation since unclear whether its reserve fund could be used to respond to a call.

- **For several countries, if the size of a call does not breach the government's total debt or guarantee ceilings, funds could be disbursed to respond to a call without immediate legislative intervention.**
  - Germany, for example, sets a ceiling on ‘surety obligations, guarantees or other warranties’ and also provisions some resources at the beginning of the financial year to meet these claims (2023/24: $2.92 billion). Thus, Germany could respond to a call in a matter of weeks by using these previously appropriated resources. Even if a call were to exceed these amounts, Germany would have no obligation to request parliamentary (Bundestag) approval as long as the amount due did not breach the ceiling on net borrowing set for the relevant fiscal year.
  - Switzerland and Brazil could employ emergency supplementary appropriation procedures (which only require parliamentary approval ex post) since it is very unlikely that a call would breach Switzerland’s debt brake rules or Brazil’s guarantee ceiling.
- **Similarly, if a call remained within pre-defined expenditure limits, governments could in most cases respond rapidly without turning to parliament**.
  - Several governments set departmental expenditure limits at the start of the financial year (Brazil, Italy, Japan, UK). In these cases, insofar as the amount of a call does not breach the set thresholds, no legislative approval is required.

In the unlikely event that a call were to exceed specifically appropriated resources, available funds in contingency reserves, as well as any debt or expenditure ceilings, then parliamentary approvals would be required through either supplementary or regular budgetary appropriation processes.

- A supplementary appropriation can be approved rapidly if the following processes are available:
  - **Extraordinary budget appropriations** (Switzerland, Brazil, Denmark, Italy) cover unforeseen and urgent expenditures. These may be enacted by a provisional executive measure, and funds can be disbursed without immediate parliamentary approval at any time during the financial year. Parliamentary approval is then required ex post.
  - **Special budget appropriations** (Belgium, Brazil, Germany, Indonesia, South Africa, UK, US) can be presented to the parliament at any time during the fiscal

year and will usually be voted on in less than 2 to 3 months.

- If these processes are not available, supplementary estimates can then only be presented during specific periods during the budget cycle (Canada, Japan). In other words, the timeline for a supplementary appropriation would depend on when during the financial year a call is made.

1.3 Fiscal risk assessment

Government analysis of development-related contingent liabilities, including callable capital, is likely to increase.

Guarantees are becoming an increasingly common instrument in the development finance toolbox of major governments. As such, governments and legislatures are likely to begin to look more closely at their budgetary implications. This could include a more detailed and systematic evaluation of the likelihood that the expenditure would be realised, as well as identifying how resources would be raised and disbursed. However, evidence of countries conducting such thorough analysis remains sparse.

None of the 21 countries surveyed here aside from the US have ever conducted a quantitative risk assessment pertaining to the risk of callable capital. According to internal risk management guidelines, most governments carry out qualitative risk assessments for a capital call on an annual basis, largely informed by MDB credit ratings.

A 2005 US Congressional Research Service report found that ‘the IBRD could continue servicing its debt for four and a half years before any of the callable capital subscribed since 1980 would be needed’ (CRS, 2005: 3). This estimate has not been updated by the USA since then.

The UK has recently drafted criteria to determine whether a contingent liability warrants a more detailed explanation. However, the UK’s Contingent Liability Central Capability has recently disclosed that since callable capital is considered an ‘extremely remote contingent liability’, it will not be part of this exercise. Switzerland has also begun to assess how callable capital commitments differ from other guarantees held by its Department of Foreign Affairs and the State Secretariat for Economic Affairs. South Africa has expanded the scope of its fiscal risk committee, which analyses the government’s contingent liabilities.

Table 1 Overview of shareholder fiscal context of callable capital, by country

	Country	Accounting	Longer process	Expedited process	Amount readily available	Applicability of expedited process	udget cycle considerations
1	Australia*	Remote contingent liability (>50% likelihood)	3–6 months	5–8 weeks	US$13.3 bn toward specific MDBs	Where special appropriations are in place	Appropriation toward contingency fund: July Regular process: June, November
2	Belgium*	Remote contingent liability (>50% likelihood)	6 months	3 months	NA	NA	NA
3	Brazil**	Remote contingent liability (>50% likelihood)	3–6 months	Less than a month	US$3.5 bn available resources in contingency fund	If size of call is below unused resources within the contingency fund	Appropriation toward contingency fund: January
4	Canada*	Remote contingent liability (>70% likelihood)	3–6 months	2–3 weeks Where money is appropriated – only applicable to IBRD	US$2.8 bn appropriated for IBRD	If money is appropriated	Supplementary/main estimates: March, June, December
5	China**	NA	6 months	Less than a month	US$3-7 bn	If size of call is below unused resources within the reserve fund	Appropriation toward contingency fund: January
6	Denmark**	Remote contingent liability (>50% likelihood)	3–4 months Appropriation via budget main estimates	In a matter of weeks Where money is appropriated – only applicable to IBRD	US$340 mn appropriated for IBRD	If CC has been appropriated or via supplementary appropriation	Expedited process: NA Longer process: August
7	France**	Remote contingent liability (>50% likelihood)	TBC	In a matter of weeks	TBC	TBC	TBC
8	Germany*	Guarantee (remote contingent liability) (>50% likelihood)	2 months Supplementary budget appropriation request only if breach of the ceiling on net borrowing	2–4 weeks if below money allocated as expenses to meet surety obligations, guarantees and warranties. 1 month if above expense limit but below ceiling on net borrowing	US$3.45 bn appropriated as expenses to meet surety obligations, guarantees and warranties	If size of a call does not breach the ceiling on net borrowing	NA. FY starts in January

9	India**	Contingent liability (>50% likelihood)	NA	2 months	US$2.087 bn appropriated in Guarantee Redemption/Contingency Reserve Fund	If size of a call is below available funds in Guarantee Redemption and Contingency Reserve Fund	Appropriation toward contingency fund: April Regular process: February
10	Indonesia**	Promissory notes/liabilities (NA)	6 months	2 months	NA	If a size of a call is within Indonesia's CC commitments	Regular process: March/April
11	Italy*	Remote contingent liability (>50% likelihood)	4-12 months	In a matter of weeks Less than two months by decree law	US$1.6 bn = size of reserve fund	If size of call is below unused resources within the reserve fund	Expedited process: January Regular process: October
12	Japan*	For IBRD: recorded MDB Act For RDBs: recorded as potential budget expenditure (NA)	2–3 months Supplementary budget appropriation request	2–3 weeks Request for an urgent expenditure via available resources the Contingency Fund or the unused non-earmarked budget	US$3 bn = size of contingency fund	If size of call is below unused resources within the contingency fund	Expedited process: April Regular process: August–December
13	Mexico*	Remote contingent liability (>50% likelihood)	NA	1-2 months	US$500 million	If size of a call fits within ceilings already voted on as part of the current budget	NA
14	Netherlands*	Remote contingent liability (>50% likelihood)	1-2 months	2–3 weeks Since the funds necessary to respond to a capital call are not accounted for in advance, and will instead be acquired through the issuance of sovereign debt	US$2 bn. The DSTA is committed to fund the entire US$5.7 bn within a month of approval. This	The off-cycle approvals can via the incidental supplementary budget can be used to disbcurse funds rapidly.	Expedited process: NA Regular process: June and December
15	New Zealand*	Remote contingent liability (>50% likelihood)	4 months	3–4 weeks	US$3.8 billion falls under Permanent Legislative Authority for all MDBs aside from EBRD or can be disbursed via Imprest Supply for EBRD. US$17.8 billion = funds available in Imprest Supply.	NA	Appropriation toward Imprest Supply: July EBRD: July All other MDBs: NA

16	Norway**	TBC	TBC	TBC	TBC	TBC	TBC
17	Saudi Arabia	Recorded within the Saudi Development Fund	NA	2-3 months	All of Saudi Arabia's commitments (~US$10.1 billion) are funded by the Saudi Development Fund	NA	Expedited process: NA Longer process: NA
18	South Africa**	Remote contingent liability (>50% likelihood)	3–4 months Regular supplementary appropriation	Less than a month Emergency supplementary appropriation	NA		Expedited process: NA Longer process: April
19	Switzerland*	Remote contingent liability (>50% likelihood)	2–3 months Regular supplementary credit request	4–8 weeks Urgent supplementary credit request	NA		
20	United Kingdom*	Remote contingent liability (>50% likelihood)	2–3 months Approval for disbursement/ supplementary request by Parliament	Less than a month Request for an urgent expenditure via the UK Contingency Fund	US$13–20 billion	High urgency, or value of a call is below FCDO/HMT departmental expenditure limits	Appropriation toward contingency fund: April Regular process: April–June or August–October
21	United States*	Contingent liability (>50% likelihood)	2–3 months via supplementary appropriation	Less than a week where funds have been appropriated	US$12 billion appropriated	IBRD: $7.66 billion (~4.9% of end-FY23 IBRD net debt) IDB: $3.80 billion (~5.4% of end-2022 net debt) ADB: $748 million (~0.9% of end-2022 net debt)	Regular process: February
	Total readily available				**Approx. US$63.9 billion**		

Note: * Countries that have shared written inputs and/or been interviewed for this research; ** Countries for which the findings are based on desk research. For countries with a contingency reserve fund the months indicated under "expedited process" refer to when the amount of the fund is determined in the budget cycles. ** France and Norway have provided written inputs which wil be updated on 12.04.24.

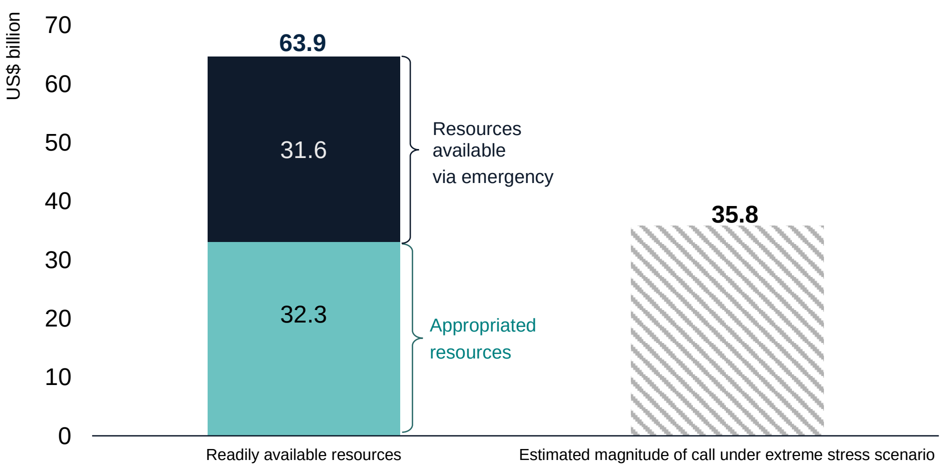
2 Policy implications

2.1 Implications for maximising the value of callable capital

According to McHugh (2024) modelling, the probability of any MDB requiring a call is less than 1% over a three-year time horizon, even in scenarios assuming (1) loan loss rates triple what MDBs have ever experienced, and (2) the MDB continues lending growth regardless of rising financial stress. Despite this low probability, the question remains: in the event of a call, would shareholders be able to respond in a reliable and timely manner.

In the extreme modelling scenarios that might lead to a capital call, **Error! Reference source not found.**McHugh (2024) estimates that the magnitude of a call would be less than 10% of outstanding callable capital commitments for only three of the seven MDBs analysed (ADB, IDB and IBRD). This is because MDBs have substantial liquid assets and other income that would be used to meet most bond obligations before capital is called. Thus, as Figure 1 illustrates, the amount of callable capital readily available based on the analysis of shareholder processes amounts to almost double ($63.9 billion) what would be required if all three MDBs called capital simultaneously ($35.8 billion). Further, under this scenario, already appropriated resources would account for 90% of capital required.

Figure 1 Magnitude of a call versus amounts that can be readily available from shareholders without requiring legislative approval



Note: readily available resources refer to funds that can be made available within less than a month without requiring legislative approval; estimated magnitude of a capital call under extreme stress scenario has been calculated assuming 50% default on loans at a Loss Given Default of 45%.

To offer further perspective, even when modelling MDB loan losses seven times above current averages, the size of a call – amounting to around 20% ($120 billion) of the total callable capital commitments by the 21 shareholders analysed – would not risk approaching the annual budgetary thresholds of any government (excluding debt ceilings) (see McHugh, 2024: 23–24).

These findings have several implications. First, the timeline over which a call on capital might materialise is likely to be measured in years rather than months. This would allow MDBs and shareholders ample time to plan.

Second, the expedited processes (2–3 months maximum) clarified by most shareholders provide the assurance that a call could be answered in a timely manner. With more than a year of foresight, all governments could choose to go through their annual budget appropriation process and still meet their callable capital obligations to the MDBs, assuming that they obtain legislative approval to meet their treaty commitments.

Third, in the highly unlikely event of a call, the quantities needed would be a relatively small share of the outstanding stock of callable capital due to the substantial liquid assets and other income that MDBs would use to meet most bond obligations before capital is called.

Finally, this analysis does not suggest that governments with readily available resources would be the only ones to honour their callable capital commitments. On the contrary, all MDB member governments face the same international treaty obligation to pay in the event of a call on capital. Nevertheless, these findings clearly illustrate, through a sample of large shareholders, that even if some countries were unable to meet their commitments, for whatever reason, sufficient resources could be made available in a timely fashion to cover MDB bond obligations even in a severe crisis scenario.

These reflections should inform how shareholders and MDB management coordinate among themselves and engage with credit rating agencies in the following ways:

- The prevailing view among credit rating agencies (CRAs) has been that only callable capital committed by highly rated shareholders should be considered when determining its value and lending room implications. S&P includes only callable capital from shareholders at or above the MDB’s stand-alone rating; Moody’s takes an average shareholder rating combined with a ratio of callable to gross MDB debt; Fitch focuses on the rating of callable needed to cover net MDB debt. However, as highlighted in the above analysis, a methodology tied to shareholder credit ratings inhibits a more nuanced and precise understanding of how shareholders would respond to a call. In fact, CRAs have clearly indicated that a lack of clarity on government processes is a factor that limits the degree to which callable capital is accounted for in their ratings. Providing and interpreting new evidence and, where relevant, streamlining government budgetary processes could lead CRAs to give greater weight to callable capital in their methodologies.

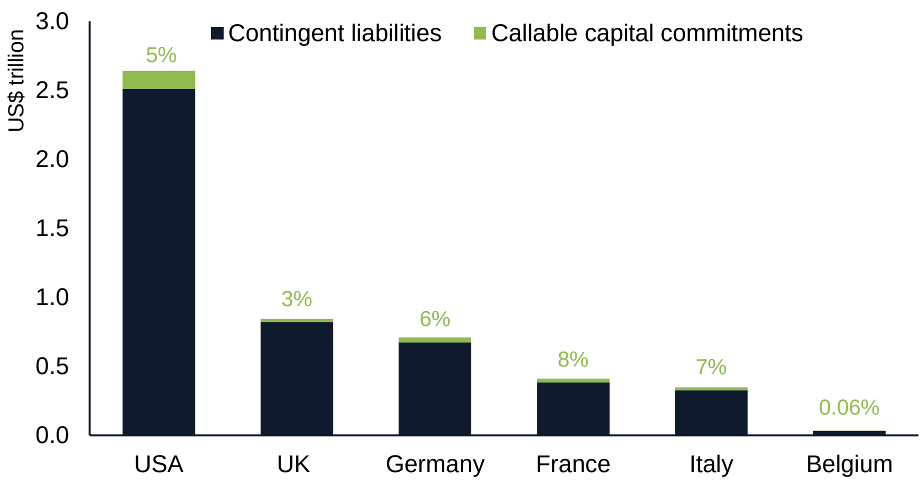
- Moody’s and Fitch limit the value of callable capital in their MDB methodologies due to concerns about the timeliness of shareholder response. Moody’s states that it would only increase the value it assigns to callable capital if ‘there are mechanisms in place that ensure rapid disbursement of callable capital after a call’ (rapid is understood to mean less than a month) or, better yet, if the process of calling on capital is ‘essentially free from timing [and logistical] constraints’ (Moody’s, 2020: 23). However, as modelling results suggest, a call would not be a sudden, unexpected event, but rather a longer process spanning several years.
- Given new analysis regarding the magnitude and timeline of a call as well as increased clarity on the relevant budgetary and fiscal processes, MDB management and shareholders should carefully explore how timeliness should factor into how callable capital is incorporated into MDB capital adequacy frameworks and present their findings to CRAs in turn.
- The efforts of many governments to clarify their processes for responding to a call in the past year will help address much of the uncertainty surrounding callable capital. Delineating the process of triggering and implementing a call in each MDB would provide added confidence to market actors that callable capital is a reliable instrument to help MDBs recover from stress (see Humphrey, 2024).
    - Specifically, shareholders and MDB management should define a set of indicators of financial stress to clarify when shareholders should begin to make arrangements for a potential call. In addition, they should spell out a clear set of processes for implementing a capital call, including: determining the amount of callable capital needed; timeframes to meet the call and the consequences of non-compliance by other shareholders; and arrangements to ringfence resources for use only to repay creditors.

2.2 Implications for shareholders' fiscal risk management

Even though callable capital is considered a remote contingent liability by all shareholders interviewed, it is important to contextualise their fiscal risk.

Figure 2 presents callable capital commitments as a share of total central government contingent liability obligations for a select number of shareholders.

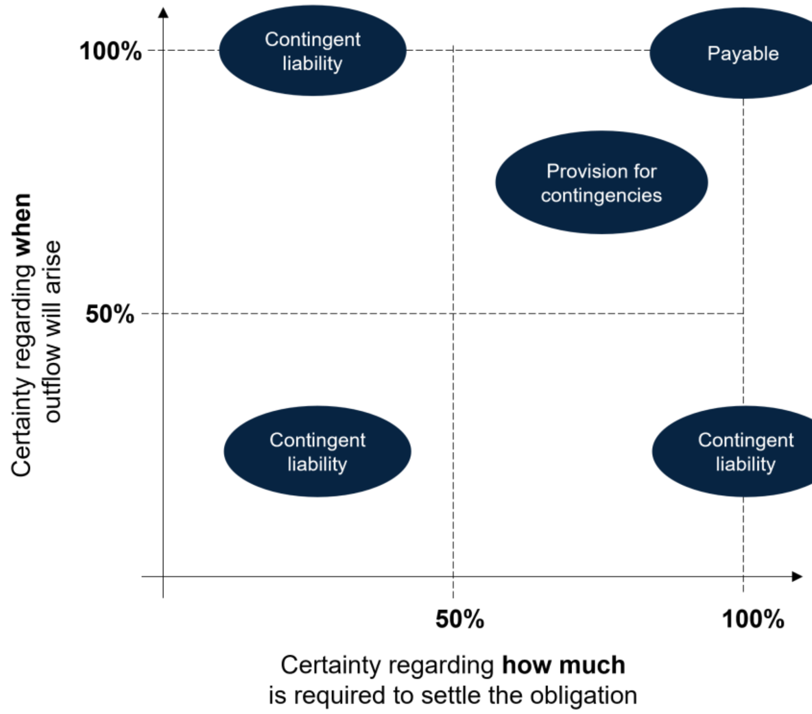
Figure 2 Callable capital commitments as a share of total contingent liabilities



Source: Contingent liabilities: data for Germany, France, Italy and Belgium are derived from Eurostat and represent stock of general government contingent liabilities at nominal value; excludes debt assumed by the government. UK data is taken from the 2023 CCLC report (UK Government Investments, 2023). For the US, data on contingent liabilities is derived from Notes 20 and 21 of US Treasury Financial Statements. Callable capital commitments: MDB financial statements 2022/23.

As noted above, almost all MDB government shareholders follow International Financial Reporting Standards, International Public Sector Accounting Standards, or Eurostat accounting guidance. All governments ascribing to these standards face no requirement to provision for callable capital in their budgets (see Figure 3). The relevant ministry would only need to provision against it once the likelihood of a call is considered probable, greater than 50% likelihood. For most governments, the provision can be made at any time, but the last opportunity to request significant additional budget provisions is usually during the supplementary estimate procedure. Once a contingency has been provisioned, no further parliamentary approval would be required to disburse funds.

Figure 3 International standard criteria to provision for a contingent liability



Source: Authors' elaboration based on International Public Sector Accounting Standards

The few governments (Japan, Mexico, and Indonesia) that do not directly ascribe to any international accounting standards could follow South Africa's example (National Treasury of South Africa, 2021) and ensure that their national accounting framework provides explicit guidance (like percentage thresholds) on when to provision for contingent liabilities.

To optimise and streamline fiscal risk management, shareholders could work with MDB management to determine what balance sheet stress indicators would imply that the likelihood of a call is greater than 50%.

3 Findings and recommendations

3.1 Summary of findings

A key step to maximising the value of callable capital is to understand the process shareholders would undertake to respond to a call. This is an essential input to pursuing the G20 Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks recommendation to 'incorporate uplift from callable capital into MDB capital adequacy frameworks' (G20, 2022: 30). It will also inform the methodologies used by credit rating agencies to evaluate the financial strength of MDBs and shareholder support.

The majority of shareholders covered in this analysis could quickly deploy substantial resources to meet an MDB capital call. In-depth analysis of the shareholder fiscal contexts of callable capital leads to the following conclusions:

1. The accounting and budgetary treatment of callable capital as a remote contingent liability means provisioning is only required if the likelihood of a call is deemed greater than 50% to 70%, which is much higher than the case for callable capital (see McHugh, 2024).
2. Given the liquid assets of MDBs and other income, it is clear that sufficient callable capital can be readily available to an MDB if a call is made, as the disbursement of funds would in most cases not require domestic legislative approval in shareholders' countries.
    - Already appropriated resources, estimated at **$32.3 billion** across five shareholder governments, can be disbursed in a matter of weeks and would not require approval from the legislature.
    - An additional **$31.6 billion** can be made available in a matter of weeks via emergency expenditure powers, without the need for parliamentary approval, largely by tapping into contingency reserve funds (across the ten countries with contingency reserve funds, around $66.3 billion has been appropriated as part of the most recent budget cycle).

- In various countries, emergency supplementary appropriation processes can disburse funds through the executive in advance of a parliamentary vote.

3 The timeframes for responding to a call could be streamlined depending on when during the financial year the MDBs issue the request. This advanced planning is possible due to the fact that a call on capital would be toward the end of a longer balance sheet stress continuum, which would materialise over the medium term (White and McHugh, 2024). In the event of a call on capital, aligning the request with the start of the financial year would ensure that enough resources are available in the unused budget (contingency reserve funds) to respond to a call. In the unlikely event that the size of a call is expected to exceed budgetary ceilings, MDB management should work with governments to include the request as part of the main or supplementary appropriation cycles.

4 Although government analysis of development-related contingent liabilities, including callable capital, is likely to increase, most countries do not analyse the fiscal risk borne by this commitment beyond the reassurance that AAA MDB credit ratings provide to government shareholders.

Much of the uncertainty around callable capital is derived from ambiguity regarding the shareholder fiscal context of callable capital. However, these findings show that even though uncertainties remain, the landscape is improving. During the past year, many governments have conducted internal exercises to clarify their processes for responding to a call. Analysing these in detail reveals that a considerable portion of callable capital could be made available quickly.

Based on these findings, two sets of recommendations are presented below aimed at (1) maximising the value of callable capital, and (2) enhancing the fiscal management of development-finance-related contingent liabilities and guarantees.

3.2 Recommendations to maximise the value of callable capital

The following recommendations would be most successful if they were adopted collectively across several MDBs and if implemented roughly in the order in which they are presented.

1. MDB shareholders who have not yet clarified their process for responding to a call should aim to do so promptly.

The manner in which callable capital is embedded in shareholder fiscal frameworks remains ambiguous for several shareholders and would benefit from enhanced clarity. This would align with broader moves by many governments to better understand fiscal contingent liabilities, including those related to development cooperation. While such analysis may be sensitive, the status of callable capital as a remote contingent liability would remain unchanged should shareholders clarify related budgetary processes. It would have no impact on the extremely low likelihood of a capital call and would strengthen public accounting and provide greater confidence to MDBs, CRAs and market actors.

2. Shareholders should work with MDB management to determine the circumstances and processes related to a capital call.

By establishing a set of key indicators to monitor MDB balance sheet stress, shareholders would know when to begin making arrangements for a capital call. As elaborated in detail by White and McHugh (2024)[6] stress indicators can help governments clarify under what circumstances provisioning for callable capital would be required.

Similarly, determining a clear set of processes for a capital call would provide greater clarity. Any effort to clarify processes should include a method to transparently determine the likely amount of a call, the time required for shareholders to meet a capital call considering their financial and budgetary cycles, and the consequences of shareholders failing to disburse funds in response to a call.

3. Once all the above has been completed, major shareholders should issue a statement reinforcing their support of MDBs.

MDB shareholder governments – especially those in high-profile groupings such as the G20, G7 or G24 – should issue legal opinions recognising their treaty commitment to respond to a call on capital. The callable portion of subscribed capital is formally part of the shareholding of each member government. Thus, governments are already legally committed to paying this capital when it is called. This is the legal basis for the 1979 opinion of the General Counsel of the US Treasury:

> ‘Callable capital subscriptions that are authorized by the US Congress are binding commitments backed by the full faith and credit of the United States notwithstanding that a future appropriation might be necessary in order to fund this commitment. To date, no authorizing statute has provided that such subscriptions are not backed by the full faith and credit of the United States. The full faith and credit of the United States is the highest assurance of payment the Government can provide.’

[6] The authors present a ‘proactive intervention framework’ designed to ensure that MDBs’ management (1) identifies risks to viability early, and (2) takes appropriate action to reduce the probability of becoming non-viable at an early stage.

Other government shareholders should issue a similar legal opinion clarifying that they recognise and stand behind their legal obligation to respond to a capital call, regardless of the actions of other shareholder countries. Doing so changes nothing about the fiscal implications of their callable capital commitments – it merely reaffirms their existing commitments and strengthens the power of those commitments to help boost market confidence in MDB financial strength.

This type of initiative could be undertaken by any shareholder government at any time. However, it may be useful to coordinate efforts within the governance framework of individual MDBs and/or at the level of the G20.

4. Shareholders and MDB management should coordinate among themselves to engage with credit rating agencies about how callable capital is integrated into rating methodologies.

The uncertainty as to whether and when funds would be available to an MDB in the event of a call is why Fitch gives shareholder support only partial credit in its assessment of the capital ratio of MDBs. Similarly, Moody's limits the value of callable capital due to concerns about the timeliness of shareholder response. In light of the new information presented in this paper, once shareholders and MDB management have clarified the processes of responding to calls – both within shareholder governments, as discussed here, and in MDBs themselves, as addressed in Humphrey (2024) – they should (as a final step) coordinate with each other to engage CRAs on potential revisions to how shareholder support is calculated in rating methodologies.

3.3 Recommendations to enhance the fiscal management of development finance-related contingent liabilities and guarantees

Using the best practices cited by the IMF as a guide, the following recommendations are aimed at addressing weaknesses in the fiscal management of development finance-related contingent liabilities and guarantees, which are increasingly being deployed by some governments.

1. Ensure that guarantees, including callable capital, are properly recorded and disclosed.

Regardless of the accounting base, governments should record and disclose in the annual budget documents or in a separate fiscal risk statement the maximum amount guaranteed, in nominal terms, and the possible reimbursement, recovery, or counterclaim by the government.

2. If the guarantees and contingent liabilities are significant, consider creating a guarantee reserve fund.

The need for a reserve fund should be judged on consideration of country-specific circumstances. Funds can be built by setting aside resources when issuing guarantees and crediting guarantee fees. Notional funds are preferred for ease of management.

3. Regulate the issuance of new guarantees through a policy framework.

The framework could specify a ceiling, as in India and Brazil, and/or provide guidance on when and under what criteria guarantees can be considered, as in South Africa. Ensuring sound fiscal management of development-finance-related contingent liabilities *ex ante* would provide confidence to treasury departments in the relevant ministries.

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Appendix 1 Shareholder processes for responding to a call

Contents

This Appendix evaluates the accounting and budgetary treatment as well as the process and timeframes of responding to a call for 22 MDB shareholders who collectively represent 54.7% of callable capital commitments across seven major MDBs. The analysis of the first 13 shareholders presented below is based on interviews and written inputs, while all other shareholders is based on desk research.

1.1 Australia

Australia is a shareholder in five MDBs (AIIB, ADB, EBRD, IBRD, MIGA) with US$14.4 billion worth of callable capital shares.

MDBs (and other DFIs, if applicable)	**Shareholding (% of Subscribed Capital)**	**Callable Capital Commitments ($ billions)***
AIIB	3.8%	2.93
ADB	5.8%	7.02
EBRD	1%	0.258
IBRD	1.43%	4.16
MIGA	1.49%	0.026
Total		**14.39**

Source: Australian Budget (Mid-year Economic and Fiscal Outlook 2023-24, p. 126, International financial institutions – uncalled capital subscriptions).

Accounting and budgeting

Australia's CC is recorded as a remote contingent liability in the Statement of Risks published in the Commonwealth Budget as well as in fiscal outlooks which are published twice a year.

If a call were to take place this would be recognised as equity (i.e. a financial asset) on Australia's government budget, therefore would be budget neutral.

Process and time frame to respond to a call

Australia has already appropriated around US$13.3 billion of its CC commitments via its special appropriation process. Australia's legislation relating to MDB membership and additional capital subscriptions – in most cases – includes specific provisions, referred to as 'special appropriations', which enable the Government to swiftly respond to call through the Consolidated Reserve Fund[7]. This could take between one to two months depending on whether there is an urgent need and enough early warning. Special appropriations are available for the following callable capital commitments:

MDB	**Callable capital readily available via existing special appropriations (US$ bn)**
AIIB	2.94
ADB	7.0
EBRD	.0753

[7] Since Australia's Contingency Reserve Fund is a notional fund the Government would either make payments or in some instances issue securities in lieu of payments (e.g. promissory notes), to meet a call on capital from MDBs. In 2022-23 US$ 20 billion were appropriated to the fund at the start of the year.

IBRD	3.3
MIGA	.0182
Total	**13.3**

Source: Australian Ministry of Finance. Note: approximations based on callable capital commitments as per end of 2023.

In the unlikely event a call were to exceed the amount readily available through special appropriations Australia may need to seek to appropriate funds via the normal parliamentary budgetary appropriation processes. This takes place twice a year in June and November. The Australian financial year runs from 1 July to 30 June.

1.2 Belgium

Belgium's subscribed callable capital is equal to US$20.6 billion (US$ 7.788 excluding EIB) across the eight MDBs where it is a shareholder.

MDBs	Shareholding	Callable Capital Commitments
(and other DFIs, if applicable)	**(% of Subscribed Capital)**	**(US$ millions)**
AfDB	0.644	952
ADB	0.34	498
AIIB	0.285	248
IDB	0.331	590
EIB	4.48	12,858
EBRD	2.3	590
IBRD	1.52	4,750
CEB	3	159
Total		**20,646**

Source: MDB Financial Statements. Note: Figures for ADB and IBRD as of December 2023; for MIGA as of June 2023; and for EBRD and AIIB as of December 2022

Accounting and budgeting

As per Eurostat guidance, Belgium's callable capital is treated as remote contingent liability and would not be recorded in the national budget accounts unless there is a more than 50% likelihood of it being called.

Process and time frame to respond to a call

Belgium has no CC readily available. To respond to a call Belgium would need to appropriate funds through the parliament. Normally this would take 6 months but could be expedited to 3 months in an urgent scenario.

1.3 Canada

Canada is a shareholder in eight MDBs whereby it holds US$29.9 billion in CC commitments.

MDBs (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital)	Callable Capital Commitments (US$ billions)	Responsibility of membership
IBRD	2.77%	7.88	Finance Canada
AfDB	3.88%	7.25	Global Affairs Canada
IDB	4.00%	6.60	Global Affairs Canada
ADB	5.22%	6.36	Global Affairs Canada
EBRD	3.4%	0.88	Global Affairs Canada
AIIB	1.03%	0.80	Finance Canada
CDB	9.31%	0.12	Global Affairs Canada
MIGA	2.95%	0.05	Finance Canada
Total		**29.94**	

Source: Canada's Public Accounts (Vol 1, Section 11, Table 11.7). Note: As of October 2023. There could be minor differences in the valuation between MDB financial statements and Canada's Public Accounts, particularly with respect to foreign exchange rate conversions.

Accounting and budgeting

Canada's CC commitments are classified as a remote contingent liability. Canada's public sector accounting directives would recognise a liability only when its likelihood exceeds 70 percent (Treasury Board of Canada 2017), compared to IPSAS or Eurostat guidance which have a 50 percent threshold. Callable capital is listed in the Public Accounts of Canada (Volume 1 – section 11).

Process and time frame to respond to a call

As part of the most recent IBRD capital increases, Canada appropriated US$2.81 billion in callable capital commitments in FY2011/2012 and FY2018/19 (2019 Public Accounts Volume II – Appendix 1).[8] **Already-appropriated resources could be disbursed in a matter of weeks.**

For all other MDBs where callable capital has not been appropriated, a funding decision by the executive branch and parliamentary approval (by both the House and Senate) through an appropriation act would be required to respond to call. This would take 4-9 months in total. There are usually four opportunities to seek appropriation throughout Canada's financial year (which runs from 1 April to 30 March): Main Estimates (March and June); Supplementary Estimates

[8] Canada appropriated up to US$1.54 billion in callable capital for the IBRD in 2011-12 and increased this appropriation to a total US$2.81 billion in 2019.

A (June); Supplementary Estimates B (December); Supplementary Estimates C (March).

However, during COVID-19 Canada did not release postponed its scheduled 2020 federal spring budget indefinitely, opting for emergency sittings to pass legislation and supplementary estimates largely limited to the pandemic response (OECD 2020).

1.4 France

MDBs (and other DFIs, if applicable)	Callable Capital Commitments (US$ billions)
IBRD	12.14
AfDB	3.85
IDB	3.12
ADB	3.28
EBRD	2.02
AIIB	2.7
Total	**27.1**

Source: MDB Financial Statements. Note: Figures for ADB and IBRD as of December 2023; for MIGA as of June 2023; and for EBRD and AIIB as of December 2022

[further details regarding France's process will be added and uploaded to this document after 12.04.2024]

1.5 Germany

Germany is a shareholder in nine MDBs. Collectively, its callable capital commitments amount to US$ 36 billion (and jumps to US$83 billion when accounting for the EIB)[9].

Accounting and budgeting

As per Eurostat guidance, callable capital in Germany is treated as remote contingent liability and would not be recorded in the national accounts unless there is a more than 50% likelihood of it being called. Even though callable capital is not reflected in Germany's national accounts but it is reported as a guarantee alongside the budget[10] (Eurostat guidance treats guarantees as contingent liabilities) and a list of its CC commitments is published every quarter in the Federal Ministry of Finance Monthly report.[11]

[9] as of January 2024.
[10] Under Budget Chapter 3208
[11] The exact amount of paid-in and callable capital that Germany provides to international and

Process and time frame to respond to a call

At the start of each financial year, Germany's federal budget appropriates expenses in advance of the realisation of surety obligations, guarantees or other warranties (2023-24: US$2.92 billion / EUR 2.7 billion). In so far, as a call would not exceed this amount by more than US$55 million (EUR 50 million), Germany could respond to a call in less than a month and has no obligation to inform the Budget Committee of the German Bundestag (parliament).

On the other hand, if a call exceeds the limit set above while remaining below the ceiling on net borrowing, then the German government would need to provide a notification to the Budget Committee of the Bundestag about its intention to mobilise the excess expenditures. This would take less than a month and wouldn't require a vote by the Bundestag.

Only in the "very unlikely"[12] event that the amount due leads to a breach of the ceiling on net borrowing set by the Bundestag for the relevant fiscal year would a Supplementary Budget have to be passed within the framework of the ordinary legislative procedure. Hereby, excess expenditure payments would be made via the Bundesbank, which routinely channels Germany's payments for MDBs' capital increases and concessional window replenishments.

The regular Supplementary Budget procedure would take up to two months and in emergency circumstances could happen at any point during the financial year. However, German officials have said they would aim to get through the budgetary process as swiftly as possible to mobilise the means Germany has committed to.[13]

1.6 Italy

Italy is a shareholder in nine MDBs. Collectively, its callable capital commitments amount to US$21.5 billion (and jumps to US$67.4 billion when accounting for the EIB).

MDBs	Shareholding	Callable Capital Commitments
(and other DFIs, if applicable)	(% of Subscribed Capital)	(US$ billions)
IBRD*	2.61%	7.698
MIGA*	2.80%	0.440
AfDB**	2.38%	2.488
AIIB**	2.65%	2.057
AsDB**	1.80%	2.425
CDB**	5.58%	0.073

supranational organizations is partly stated in the explanations on chapter 6002 (annual authorizations) of the annual budget 202328 (Title group 2: Contributions to international and supranational institutions) and in the budget plan for the Federal Ministry for Economic Cooperation and Development (Annual Budget 2023, Section 23)

[12] as described by German authorities

[13] In rare cases there may be factors that affect the timeline of the process, for instance if notification of the Budget Committee or even a supplementary budget is necessary immediately before or after a federal election.

EBRD**	8.52%	2.185
IADB**	1.97%	3.242
EIB**	18.78%	45.954
CEB**	16.72%	0.879
Total		**67.441**

*Note: *As of June 30, 2023 ; **As of December 31, 2022.*

Accounting and budgeting

As per Eurostat guidance, Italy's callable capital is treated as remote contingent liability and would not be recorded in the national budget accounts unless resources are allocated for the specific purpose.

Process and time frame to respond to a call

Italy's Ministry of Finance has the authority to respond to a call within days by identifying available resources within the budget or --- the principle of flexibility within the Government Accounting and Public Finance Act (see Box) .

Article 28 of the law n. 196, 31 December 2009 of the "Law on accounting and public finance" would also authorise the Minister of Economy and Finance to respond to call within days (without parliamentary approval) by signing a ministerial administrative decree which would appropriate funds from:

1 **Resources available within the reserve funds**. At the start of the financial year, in January, funds are appropriated in the event of unforeseen expenses and/or the materialisation of contingent liabilities. Thus, if a call were to happen in the first months of the year there is a high likelihood that the majority of these resources could be made available to respond to a call[14];

2 **The transfer of resources** form other budget items/units.

Alternatively, in the unlikely event that there are no funds available within the reserve fund or though the transfer of funds, Italy could respond to a call in less than a month using the extraordinary legislative procedure – decree law. Once the Minister of Economy and Finance informs the Council of Minister of an urgent decree law it becomes immediately effective. Within 60 days of the law coming to effect it would be retroactively approved ("converted into law") by the Parliament.

Finally, if a call is not considered urgent, Italy would appropriate funds via the ordinary budget process. A draft budget law including callable appropriations must be presented to parliament in October and are voted on by the end of the calendar year.

[14] We have conservatively estimated these at around US$1.6 billion based on our reading of the annual budget law.

The principle of flexibility within Italy's Government Accounting and Public Finance Act

The principle of flexibility regards the planning and operational phases of the budget. Implementation of the principle is intended to avoid excessive rigidity in the management of expenditure appropriations, in accordance with the budget approved by Parliament. The principle is intended to foster the adjustment of budget appropriations to the actual operational needs of government bodies in coping with the effects of unforeseen and extraordinary circumstances, while ensuring no change in expenditure through offsetting measures within the appropriations for the same voting unit approved by Parliament and in compliance with applicable legislation. The legislation governing government accounting and the public finances establishes a variety of approaches for implementing the principle of flexibility, to which reference is made.

Law 31 December 2009, n. 196

1.7 Japan

Japan is a shareholder in five MDBs amounting to XXX in callable commitments.

Accounting and budgeting

Callable capital is not reflected in the national budget nor it is reported to parliament as a contingent liability below the balance sheet.

For most shareholders, there is no difference in the accounting treatment of CC across MDBs. However, Japan does adopt different accounting methodologies for multilateral and regional development banks due to the fact that there are two types of legislative mechanisms for Japan to accede to a development bank:

1. For the WBG, the Japanese government cannot subscribe for any additional shares (nor make any payment of the amount subscribed by it) without amending "the MDB Act". **Therefore, all of Japan's CC commitments to the WBG are reflected in the MDB Act**,[15] which is thus used for parliamentary reporting and accountability purposes.
2. For the regional development banks (AfDB, ADB, IADB, EIB and EBRD), further subscriptions are authorised via the national budget and no act needs to be amended. **In turn, all of Japan's CC commitments to the regional development banks are**

[15] There is no difference in this respect between paid-in capital and callable capital in MDB Acts.

recorded in the general budget provisions (yosan sousoku) as a potential expenditure.

Since neither of these options report CC as a contingent liability, as per IAS 37, Japan has no explicit threshold (ex. 50 percent likelihood) that would directly determine when a potential expenditure should be appropriated. The team within Ministry of Finance which oversees Japan’s MDB shareholding is responsible for monitoring the risk of CC materialising. If the risk of a call were to significantly increase the MDB team and the budget office – both sitting within the Ministry of Finance – would liaise closely with the to determine whether/when appropriation would be necessary.

Process and time frame to respond to a call

In an emergency situation, Japan could respond to a call by any MDB (irrespective of the differences laid out above) in a matter of weeks. **To disburse funds within less than a month, the Japanese government would assess whether there is available resources within the existing budget including the reserve fund (contingency fund in general) without the need for parliamentary approval**. The size of the contingency fund, which is normally reserved in the event of natural disasters, is voted on as part of the national budget and at the start of each financial year the fund’s allocation is set at around US$2-3 billion. If a call were to happen around April, when Japan’s financial year starts, the majority of these resources could be available to respond to a call..

Regardless of the size of a call, the Ministry of Finance could issue the promissory notes, which have been already authorized by the above-mentioned process.[16] Parliamentary approval would however be required if the government sought the budget to encash the promissory notes.

Under normal circumstances, the initial budget is approved by the end of March. Furthermore, there is likely Supplementary Budget that is debated within parliament between September and December. Under emergency circumstances, however, a Supplementary Budget request could also be made outside of the normal budget cycle, at any time during the year.

1.8 Netherlands

MDBs	Callable Capital Commitments (US$ billions)
IBRD	5.856
AfDB	.9055
IDB	.280
ADB	1.446
EBRD	0.589

[16] Money could be disbusrsed from the unused budget.

AIIB	0.825
Total	**9.902**

Source: MDB Financial Statements. Note: Figures for ADB and IBRD as of December 2023; for MIGA as of June 2023; and for EBRD and AIIB as of December 2022

[further details regarding the Dutch process will be added and uploaded to this document after 12.04.2024]

1.9 Norway

[details regarding Norway's process will be added and uploaded to this document after 12.04.2024]

1.10 New Zealand

As a shareholder in five MDBs New Zealand has US$3.8 billion of subscribed callable capital.

MDBs (and other DFIs, if applicable)	Shareholding[17] (% of Subscribed Capital)	Callable Capital Commitments ($ million)
IBRD	0.41%	1,261.6
MIGA	0.29%	4.441
ADB	1.532%	2,187.2
EBRD	0.035%	7.69
AIIB	0.476%	369.2
Total		3,830

Source: MDB Financial Statements. Note: Figures for ADB and IBRD as of December 2023; for MIGA as of June 2023; and for EBRD and AIIB as of December 2022.

Accounting and budgeting

Callable capital commitments are disclosed in the Government's financial statements as remote contingent liabilities. These financial statements are reported on a monthly basis for the months of September through to June. Provisioning would only be required if the likelihood of a call is deemed greater than 50 percent.

If a call on capital occurs, it would be registered as an increase in financial assets, therefore would have a neutral impact on the Government's net debt position.

Process and time frame to respond to a call

New Zealand does not require legislative approval to respond to a call on callable capital, and would thus be able to disburse funds up to US$3.8 bn within weeks. Funds can be swiftly

[17] Figures for ADB and IBRD as of December 2023; for MIGA as of June 2023; and for EBRD and AIIB as of December 2022, according to the respective MDB financial statements.

disbursed via either the Imprest Supply process (relevant for EBRD), or via Permanent Legislative Authority (relevant for all other MDBs):

For all MDBs, aside from the EBRD, a Permanent Legislative Authority (PLA) authorises capital contributions (paid-in and callable) to MDBs under Section 5 of the International Finance Agreements Act 1961. This means that no additional legislative process is required to authorise New Zealand's response a call on capital, however, endorsement from the Cabinet[18] would likely be required.

For the EBRD, there is no PLA authorising the Minister of Finance to respond to a call. Absent a PLA, Parliamentary appropriation would be needed. Under the regular budget cycle there are two windows for parliament to consider appropriations: June (a call must be presented to the Minister of Finance by February) and October (a call must be presented to the Minister of Finance by August). However, New Zealand could also respond to a call by the EBRD at any point during the year within a matter of weeks by tapping into the Imprest Supply.[19] The Imprest Supply is a way by which Parliament provides prospective approval for the Executive to spend public money up to a specified amount (2023/24: US$17.8 billion) prior to an appropriation being passed. Disbursing Imprest funds only requires Cabinet approval (using a similar process as described for the other MDBs covered by PLA). Since the amount within the Impreset Supply is established by the legislative at the start of the financial year, in July, more resources are available early in the financial year.

Why is there no Permanent Legislative Authority authorising New Zealand to respond to a capital call by the EBRD?

As describe above if New Zealand would respond to call on capital this would be recognised as an increase in the Government's financial assets. The authority to acquire the financial asset is provided from the PLA that is in place, which allows the relevant Ministry to bypass parliamentary approval for all MDBs aside from the EBRD.

According to authorities in New Zealand, the distinct treatment of EBRD compared to other MDBs is a product of portfolio responsibility historically being held by the Minister of Foreign Affairs (and the Ministry of Foreign Affairs and Trade). Responsibility has recently been shifted to the Minister of Finance (and the Treasury), which

[18] Cabinet's endorsement can be sought by the Minister of Finance, as Governor of each MDB, at any of the Cabinet meetings, which occur most weeks throughout the year. When seeking Cabinet's endorsement, the Minister of Finance, with advice from the Treasury, would discuss with Ministerial colleagues the fiscal implications of the call on capital. Once directed by Cabinet, the Treasury would arrange for the funds and transfer them to the relevant MDB.

[19] Requests for Cabinet authority to use Imprest Supply can be commenced at any time, other than the period (usually of around 1 month) preceding the government's 'Budget Day' (generally in May) known as the 'Budget Moratorium', during which new funding requests or other decisions that would materially impact economic or fiscal forecasts cannot proceed

provides a pathway for addressing this distinction, which the government may consider doing in the future.

1.11 Switzerland

Switzerland has subscribed to US$8.3 billion in callable capital across ten MDBs.

MDBs (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital)	Callable Capital Commitments (US$ billions)
AfDB	1.44	2
ADB	0.58	0.78
AIIB	0.73	0.57
EBRD	2.3	0.63
IDB	0.47	0.78
IIC	1.33	NA
MIGA	1.49	0.02
IFC	1.7	NA
IBRD	1.53	3.47
CEB	0.983	0.046
Total		**8.3**

Note: as of December 31, 2022

Accounting and budgeting

Switzerland classifies callable capital as a remote contingent liability in accordance with IPSAS 19. Switzerland does not provide any other contingent liabilities or guarantees to MDBs.[20] The stock of callable capital is value adjusted[21] on an annual basis and reported in the Federal consolidated financial statements. As per the Swiss Federal Finance Administration, provisions should be made for CC, guarantees or any other contingent liabilities only if the probability of loss is greater than 50%.

Process and time frame to respond to a call

Since all of Switzerland's CC commitments are authorised but not yet appropriated, the Federal Department for Economic Affairs, Education and Research (EAER) would have to formulate a credit request in coordination with the Federal Department for Foreign Affairs (FDFA) to appropriate funds in response to a call. In case of a request for a supplementary credit either the urgent or the regular procedure would apply, the latter requires immediate parliamentary approval while the former does not.

1 Regular supplementary credit request – following the submission of the credit request by the EAER and FDFA, the Federal Department for Finance would review the case. The Federal

[20] Switzerland considers that callable capital does not fulfil the conditions of a guarantee based on IPSAS accounting rules (IPSAS 29), since it lacks some features of a guarantee (e.g. no defined termination date, no market value).
[21] mainly to account for exchange rate fluctuations, since there is no market value.

Council would then submit the request for a supplementary credit to Parliament as part of an omnibus supplementary credit bill. There are two rounds for supplementary credits requests: the first in the summer (concluding in June, request to be submitted by February) and in the winter (concluding in December, request to be submitted by August) parliamentary sessions. In so far as a request is submitted within these time frames, it would take Switzerland 3-5 months to respond to a call under the regular process.

2 Urgent supplementary credit request – the Federal Council decides itself on the request[22] without going to parliament. **Since parliamentary approval is sought after the disbursement of funds (during the next regular budget session) it could take less than 4-8 weeks for Switzerland to respond to a call.** The urgent procedure is used only in exceptional circumstances, subject to demonstrating a very high level of urgency and necessity. The responsible department following consultation with the FDF determines on a case-by-case basis if there is scope to follow an urgent procedure in place of the regular procedure.

In both cases, the supplementary credit would have to conform with Switzerland's debt brake rules (Art. 126 Federal Constitution and Art. 13-18 of the Federal Budget Law). However, considering the relatively small size of Swiss CC commitments, and the flexibility of the debt break during crisis time (see Box), it is "very unlikely" that a call would breach Swiss debt brake rules.

The Swiss debt brake

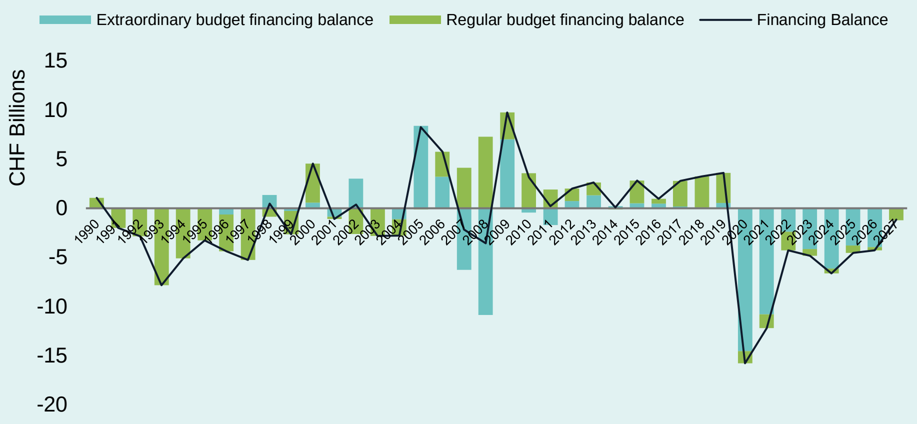
Art. 126 of the Federal Constitution requires the Swiss government to balance its expenditure and revenue over the long term. To this end, the ceiling on total expenditure to be approved in the budget is set on the basis of estimated revenues, taking into account of the economic situation. The expenditure ceiling may be increased during exceptional times of crisis – i.e. extraordinary financing balance (see Figure 4).

In other words, the flexibility of the debt brake allows for an overspend during turbulent times since in boom times the government must use surplus revenues to pay off the debt it incurred. This allows for the balancing of the federal books over the course of economic cycles, which last several years. For example, during COVID-19 the Confederation made CHF 30 billion available within a very short time, which Switzerland now plans to repay by 2035. Interestingly, despite this plan, as a result of Russia's invasion of Ukraine, parliament decided to increase the Swiss budget spending from CHF5.6 billion to CHF7 billion by 2030. Yet due to the flexibility

[22] Even though the Federal Council does not need parliamentary approval to approve an urgent request it does consult with the Finance Delegation of Parliament.

of the debt brake, Switzerland has never actually surpassed its adaptive expenditure ceiling (ever since the rules were established in 2003).

Figure 4 Swiss financing balance



Source: (The Swiss Confederation Data Portal 2024)

Fiscal risk assessment

In accordance with internal risk management guidelines issued by the Swiss Federal Finance Administration, the government carries out qualitative risk assessments for a capital call on an annual basis. No quantitative risk assessments is conducted.

1.12 United Kingdom

[details regarding the UK's process will be added and uploaded to this document after 12.04.2024]

1.13 United States of America

In total the USA's callable capital commitments across the eight MDBs for which it is a shareholder are equal to $130.2 billion. Three quarters of this exposure relates to the CC commitments for the IBRD and IDB.

MDBs (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital)	Callable Capital Commitments ($ billions)[23]
IBRD	16.6%	$49.2
IDB	30.7%	$49.2
AsDB	15.6%	$18.7
AfDB	6.5%	$8.2
EBRD	10.1%	$3.1
NADBank	50.0%	$1.5

[23] See Treasury Department Agency Financial Report, 2023. In some cases, these numbers differ slightly from those included in MDB annual financial statements due primarily to use of different exchange rates by Treasury and various MDBs.

MIGA	18.4%	$0.3
Total		**$130.2**

Source: MDB annual financial statements from IBRD and MIGA fiscal year 2023, and AsDB, AfDB, EBRD, IDB, and NADBank calendar year 2022.

Accounting and budgeting

U.S. callable capital subscriptions at the MDBs fall under the category of “Other Commitments and Contingencies” in the Treasury Department’s Agency Financial report, where they are referred to as commitments, but are functionally equivalent to contingent liabilities.

In accordance with the Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, Treasury recognises material contingent liabilities when they are considered probable.

If called, CC would likely be accounted for in the same way as paid-in capital which is considered to be a non-marketable equity investment valued at cost in the Treasury Financial Report.

Process and timeline to respond to a call

From 1945 until 1981, the US Congress regularly appropriated money to cover the callable portions of its capital subscriptions to the MDBs, amounting to around $12 billion ($7.66 billion for IBRD, $748 million for ADB and $3.8 billion for IDB). These appropriations remain as unspent, unobligated balances at the Treasury. Callable capital subscribed since 1982 – including subsequent capital increases as well as shares in MDBs joined later by the US (EBRD and AfDB) – has not been appropriated. Already-appropriated resources in the US could be disbursed in less than a week, requiring the authorisation of the executive branch but not the legislature. In addition, the full amount of callable capital that has been authorized and appropriated for each MDB would be available for disbursement in response to one or more calls (e.g., if some portion of this amount is used to respond to a call, the remainder would be available for one or more subsequent calls).

Should the capital call exceed appropriated amounts, US resources must be requested and approved by both houses of Congress. Such a request can be made by the US administration at any time, either by transmitting an emergency supplementary funding request or including it as part of another measure that also needs to be passed by Congress.

In the event that the timing of a forthcoming call aligns with the U.S. budget cycle in early February, U.S. Treasury could work with Office of Management and Budget (OMB) to include in the President’s budget request the amount that Treasury expects to be called.

1.14 Brazil[24]

MDBs (and other DFIs, if applicable)	Callable Capital Commitments (US$ billions)
IBRD	6.068
AfDB	0.151
IDB	18.740
ADB	NA
EBRD	NA
AIIB	4.000
Total	**28.959**

Accounting and budgeting

Callable capital is considered a contingent liability and is not reflected in the national budget. Due to its remote likelihood it is not cited in Brazil's Federal Fiscal Risk Report (Brazil National Treasury 2022) alongside other contingent liabilities however it is recorded in Brazil's Quarterly Guaranteed Debt Report (2023).

Brazil's budgeting and accounting framework is based on the Fiscal Responsibility Law (FRL). The FRL establishes general public finance rules and practices, enforcing responsibility in fiscal management for all levels of government (see Box). Hereby, contingent liabilities only need to be provisions when they are considered likely (> 50 percent) to materialise.

Brazil's Fiscal Framework, 2000 to 2024

In 2000, the approval of the FRL (Law No. 101/2000) was a key milestone in the post-1990 efforts to preserve fiscal sustainability and improve public financial management in Brazil. The FRL's main prudential limit stated that the outstanding amount of government spending, including guarantees provided by the Government, could not exceed 60% of its current net revenues on an annual basis.

However, challenges have emerged over time, including due to the procyclical nature of rules, the lack of a medium-term anchor, and extensive budget rigidities. Brazil's prudential limits are defined in nominal terms, with no consideration for the business cycle. For example the scope of the primary balance target, initially set to include the non-financial public sector, was gradually narrowed to exclude large state-owned enterprises (SOEs) (Eletrobras, Petrobas), subnational governments, and some spending categories. Thus in 2016 a spending ceiling was introduced, limiting federal primary spending growth to inflation for 20 years. However, over the

[24] Brazil has not provided written responses or been interviewed for the purposes of this research, all information presented is based on the author's interpretation of publicly available documents.

years, the frequent amendments and the retrenchment of discretionary spending contributed to weaken the effectiveness of the 2016 federal ceiling

To address limitations, in 2023, under Constitutional Amendment No. 126, of December 21, 2022, the federal government approved a new fiscal framework. The new rules includes a softer cap on government spending and guarantees which now cannot exceed 70% of the previous year's revenue. It also amended the 2016 ceiling, restricting spending growth to a range of 0.6% to 2.5% a year above inflation Soon after the new framework was announced, the Primary Revenue and Expenditure assessment Report for the first two months of 2023 was published. The report suggests that a limitation of the commitment of budget appropriations may be promoted, as well as a limitation of financial movement with a view to achieving the primary result target. In addition, the report suggests the need to block discretionary budget appropriations in the amount necessary to comply with new limits. However, prudential limits can be waived through Congress authorisation of 'extraordinary credits', applicable for urgent and unforeseen spending needs. Such waivers were also applied under the previous framework from 2019 to 2022.[25]

Potential process and timeline to respond to a call

The budget allocation for contingencies can be used at the government's discretion to meet a call on capital. Article 5 of the FRL provides that at the start of the financial year, in January, the Annual Budget Law must appropriate resources for a contingency reserve aimed at meeting contingent liabilities and other unforeseen events (2022-23: US$3.5 billion).

If a call on capital exceeded resources available within the reserve then the Ministry of Finance can submit a request for appropriation The legislation foresees three options to modify the enacted budget during the fiscal year, the time frame can be streamline depending on urgency:

- Extraordinary budget appropriations (créditos orçamentários extraordinários) cover unforeseen and urgent expenditures. These may be enacted by a provisional executive measure and funds can be disbursed without Parliamentary approval. Congress approval is then required ex post.
- Special budget appropriations (créditos orçamentários especiais) are approved by Congress, for new expenditures which are not included in the enacted budget.

[25] In all other years, there has been legal compliance with the rule.

- Supplementary budget appropriations (créditos orçamentários suplementares) can be enacted through presidential decrees at any time during the fiscal year, as long as the amount is backed up by identified funding and does not exceed any limits set out in the annual budget law (a supplementary budget proposal must be approved by Congress to exceed this limit).

In the very unlikely event a call were to exceed any prudential limits or expenditure ceilings set out in the FRL, the Ministry of Finance would have to request a waiver through Congress authorisation of 'extraordinary credits' (see Box).

Fiscal risk assessment

As mentioned above, callable capital currently does not appear in the National Treasury's Annual Fiscal Risk Assessment Report. According to the FRL, the Report must provide an evaluation of contingent liabilities and other risks that may affect the fiscal budget, as well as the government balance sheet as an Annex to the Annual Budgetary Guidelines Law.

For instance, the aforementioned Annex includes information about lawsuits and their risks for the government balance sheet, ranked by source and by agencies responsible for their management.

1.15 China

MDBs (and other DFIs, if applicable)	**Callable Capital Commitments (US$ billions)**
IBRD	17.37
AfDB	1.322
IDB	0.05
ADB	9.09
EBRD	0.0238
AIIB	28.82
Total	**56.68**

China's current liability standards generally do not push for the early recognition and disclosure of provisions and contingent liabilities.

China could respond to a capital call without engaging the legislative process insofar as disbursement happened through contingency reserve funds (2020-21: US$7 billion) within the government's pre-approved annual budget. If a call were to happen close to the start of the financial year, in January, the majority of these funds would be readily available. If instead China were to disburse funds through its emergency budget, then this would require approval by both the

National People's Congress and its Standing Committee (Fitch, 2022).

1.16 Denmark[26]

MDBs	Callable Capital Commitments (US$ billions)
IBRD	2.274
AfDB	1.201
IDB	.280
ADB	0.481
EBRD	NA
AIIB	.295
Total	**4.531**

Accounting and budgeting

As per Eurostat guidance, Denmark's callable capital is treated as remote contingent liability. CC would not be recorded in the national budget accounts unless there is a more than 50% likelihood of it being called.

Potential process and timeline

As part of the most recent IBRD capital increases, Denmark appropriated US$340 billion in callable capital commitments in FY2020/21[27] (2021 Financial Accounts No. 10 re 06.37.10).[28] **Already-appropriated resources could be disbursed by the Minister for Development Cooperation in a matter of weeks, without parliamentary approval,** and will only be drawn on in the event "that a suspension of repayments affects a very extensive part of the total lending by the bank."

For all other MDBs where CC has not been appropriated the Minister for Development Cooperation could also respond to a call by using available resources within the ministries budget. To provide flexibility to respond to sudden unforeseen events, like a call on capital, a non-earmarked reserve fund (2023: around US$20 million) is appropriated annually for the Minister for Development Cooperation. If the size of a call exceeds the Ministry's expenditure ceiling determined by the annual budget, then parliamentary approval through a supplementary or regular appropriation would be required to respond to call. Denmark's financial year runs from 1 January to 31 December. The regular appropriation or Main Estimates must be presented to Parliament by the end of August for a vote in December. Meanwhile edits to the Supplementary Appropriation Act can be presented at any point during the year. The Ministry of Finance

[26] Denmark has not provided written responses or been interviewed for the purposes of this research, all information presented is based on the author's interpretation of publicly available documents.
[27] Denmark prepares an accrual-based budget
[28] Canada appropriated up to US$1.54 billion in callable capital for the IBRD in 2011-12 and increased this appropriation to a total US$2.81 billion in 2019.

reviews the contributions and ensures that proposals are in accordance with prior approvals from the Parliament's Finance Committee and the Ministry of Finance. The proposal for an Act on supplementary appropriations is only presented to the Danish Parliament after the end of the financial year and thus parliamentary approval is only required ex-post.

1.17 South Africa[29]

MDBs (and other DFIs, if applicable)	Callable Capital Commitments (US$ billion)
AfDB	8.18
NDB	7.77
WBG	2.21
Total	18.2

Source: Budget Review 2024. Note: as of Feb 2024.

Accounting and budgeting

Callable capital is reported as a remote contingent liability within Chapter 7 of the National Treasury of South Africa's yearly budget review. Provisioning is required only if the likelihood of a call is above 50%, in line with the provisions of Chapter 14 of the Modified Cash Standard (Accounting Framework for Government Departments) (National Treasury of South Africa 2021).

Potential process and timeline to respond to a call

If there are available resources within the departmental budget of the Ministry of Finance South Africa could respond to a call relatively quickly.[30]

In the event a call exceeds departmental expenditure limits, South Africa could appropriate fuds for CC through the regular or supplementary budget appropriation process. The former would take 3-4 months if presented to parliament at the start of the financial year, in April. On the other hand, the Supplementary (also known as adjustment) appropriation process can take less than a month to be passed by parliament in emergency circumstances (for example in 2020 an adjustment appropriation bill was tabled on the June 24th and passed on July 4th; in 2022 a bill was tabled on Oct 26rh and passed Dec 1st).

Despite the fact that the World Bank and IMF31 have recurrently advised South Africa to set up a contingency reserve fund to help reduce fiscal volatility, prior to 2024 the government has not had one in place. However, as part of the 2024 Budget Review published in

[29] South Africa has not provided written responses or been interviewed for the purposes of this research, all information presented is based on the author's interpretation of publicly available documents.
[30] According to the National Treasury's Medium Term Budget Policy Statement (MTBPS), dubbed the "mini budget", allocations made over the next three years provide an agreed-upon upper limit within which departments prepare their budgets.
[31] See (Bachmair and Bogoev 2018) and (IMF 2023)

February, the National Treasury announced a new agreement with the South African Reserve Bank regarding the Gold and Foreign Exchange Contingency Reserve Account (GFERCA) (see Box). The agreement, which is yet to be formalised, will allow the government to use available funds within this account to help balance its budget position. It remains unclear whether the GFERCA agreement will also act as a buffer for potential materialization of contingent liabilities, if so it could presumably be used to rapidly respond to an MDB call on capital.

Reforming South Africa's Gold and Foreign Exchange Contingency Reserve Account

The GFECRA is an account held at the South African Reserve Bank which captures valuation gains on South Africa's foreign exchange reserves. Currently, such gains or losses are not settled but are reflected as assets/liabilities on the financial statements of the National Treasury and the Reserve Bank.

As the rand has depreciated against the US dollar, the GFECRA balance has grown from US$ 93 million in March 2006 to US$ 26 billion in January 2024, making this account larger than any plausible losses on foreign exchange reserves from rand appreciation.

In 2024 a proposed settlement agreement will be formalised between the National Treasury and the Reserve Bank which aims to reduce government borrowing while maintaining the Bank's solvency. In practice this would mean that once sufficient funds have been set aside to absorb exchange rate swings and preserve the Bank's financial position, all remaining funds will be distributed to the National treasury to held reduce government spending and provide a buffer in the event of unexpected realisation of liability.

Consequently, between 2024/25 and 2026/27, the government will draw down US$7.8 billion of the GFECRA balance, leading to decline a US$1.5 billion in debt service costs over the period.

Source: (National Treasury of South Africa 2024)

3.3.1 Fiscal risk assessment

South Africa has established a fiscal risk committee with a mandate to identify the major sources of fiscal risk and quantify them as far as is possible, monitor risks and propose mitigating measures, and report on risks both for internal purposes and to the public. The committee meets quarterly and incorporates a wide range of actors from within the National Treasury that are required to report on their area of expertise. It is supported by a secretariat in the Fiscal Policy Department of the Treasury (IMF 2016).

Despite this, over the past several years, the quality of the government's contingent liabilities exposure from the issuance of guarantees has deteriorated significantly. This deterioration has also resulted in South Africa's exposure becoming a significant risk the country's sovereign credit rating. Alarmingly, most guarantee requests received over the last five years have not been in line with Cabinet approved guidelines and prudent credit risk guidelines. In response to these events, the Government has amended the criteria under which guarantees can be considered (National Treasury of South Africa 2020) (IMF 2023). As per National Treasury instruction No. 09 2020/21 the following criteria must be met when requesting approval for the issuance of guarantees, securities, and indemnities and :

a) Demonstrable need for government to accept the rest (i.e. underlying transaction must presented and in accordance with the government's strategy)

b) The applicant must demonstrate adequately that it will generate sufficient cash flows that will enable it to settle its obligation

c) Sufficient evidence that, a clear assessment of the underlying project or lending activity in the case of a development finance institution, has been conducted by the relevant Ministry and should be submitted as part of the application. Where it is determined that the underlying project will yield social benefits without generating enough revenue and returns that will enable public entities to service the required debt, then the project or lending activity should be funded through the budget appropriation process

d) Public entities that have previously not adhered to guarantee conditions should not submit applications.

1.18 **Mexico**[32]

MDBs	Callable Capital Commitments (US$ billions)
IBRD	4.548
AfDB	NA
IDB	12.048
ADB	NA
EBRD	0.0345
AIIB	NA
Total	**9.902**

Accounting and budgeting

Callable capital is not reflected in the national budget nor it is reported to parliament as a contingent liability below the balance sheet. Mexico has no explicit threshold (ex. 50 percent likelihood) that would directly determine when a potential expenditure should be

[32] Mexico has not provided written responses but has been interviewed for the purposes of this research, all information presented is based on the author's interpretation of publicly available documents.

appropriated. The team within Ministry of Finance (Hacienda) which oversees MDB shareholding is responsible for monitoring the risk of CC materialising.

Process and timeline to respond to a call

Mexico, can tap into existing funds to meet a capital call if the request fits within ceilings already voted on as part of the current budget. To this end, a call of around US$500 million could be disbursed rapidly. However, Parliamentary approval would be required if the government sought to respond to a call by tapping into unspent money that had been previously approved for a different use.

1.19 **India**[33]

MDBs (and other DFIs, if applicable)	Callable Capital Commitments (US$ billions)
IBRD	9.54
AfDB	0.29
IDB	0.05
ADB	8.93
EBRD	0.08
AIIB	6.69
Total	**25.59**

Accounting and budgeting

India's callable capital subscriptions are classified as a contingent liability and is recorded in the Ministry of Finance's Receipt Budget (Part B Section iii Guarantees given by the government). Based on paragraph 14 of the Indian Accounting Standard a contingent liability will have to be provisioned only when it is considered more likely than not to occur - i.e. the likelihood is above 50% (Ind AS 37 2023).

India's Guarantee Ceiling

The Indian Fiscal Responsibility and Budget Management (FRBM) Act mandates the Central government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly, Section 4(1)(c) of the FRBM Act prescribes a ceiling of 0.5 per cent of GDP for the increase in guarantee obligations year-on-year (2022-23: US$28 bn or an increase equivalent to 0.2% of GDP from the previous year's stock).

Potential process and timeline to respond to a call

[33] India has not provided written responses or been interviewed for the purposes of this research, all information presented is based on the author's interpretation of publicly available documents.

It is likely that India could respond to a call within less than a month by disbursing resources appropriated in the Guarantee Redemption Fund or the Contingency reserve fund.

The Guarantee Redemption Fund was established in the Public Account of India 1999-2000 for the redemption of guarantees given to central public sector Enterprises, financial institutions, etc. by the Union Government whenever such guarantees are invoked. The fund is fed through budgetary appropriations with an annual provision in the Budget Estimates ,under the head 'Transfer to Guarantee Redemption Fund' (Grant No. 32 of Department of Economic Affairs).

As per the terms of the Redemption Fund, during each year, the Government is required to contribute an amount equivalent at least to one fifth of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees issued during the financial year (2023-24: US$1.087 billion) (Reserve Bank of India 2015). Presumably, since the fund is not earmarked for specific purposes India could withdraw already appropriated resources therein to respond to a call in less than a month.

The Contingency Reserve Fund would allow the Minister of Finance to respond to a call within days. The size in 2023-24 was around US$1 billion (rupees 8000 crore). Moreover, as per the 2021 Amendments to the Contingency Fund rules, anything beyond the limit established at the start of the financial year can be deployed with the approval of the Secretary to the Government of India, Department of Economic Affairs and the Secretary to the Government of India, Department of Expenditure. Regardless of whether the size of a call would exceed the fund’s limit, parliamentary approval would be required ex-post).

Alternatively, India could appropriate fuds for CC through the regular budget process. The budget is presented to the Parliament generally on the last working day of February and would be voted on by the first week of May.

1.20 Indonesia[34]

MDBs (and other DFIs, if applicable)	Callable Capital Commitments (US$ billion)
IBRD	9.537
AIIB	8.367
ADB	8.49
Total	**26.39**

Accounting and budgeting

[34] Indonesia has not provided written responses or been interviewed for the purposes of this research, all information presented is based on the author’s interpretation of publicly available documents.

Callable capital subscriptions by Indonesia take the form of promissory notes and are recorded as liabilities[35] in the Government's annual budget and financial statements.

Potential process and timeline to respond to a call

Since Indonesia's budgeting framework for callable capital occurs through the issuance of promissory which are legally-binding debt acknowledgement letters issued by the Government, these effectively act as appropriations. Based on this understanding, Indonesia should be able to answer a moderate call in a timely fashion.

Indonesia could also rapidly respond to call, without going to parliament, by using available resources within the budget even if this requires the shifting funds that were originally appropriated for a different purpose. However, if a call on capital were to exceed the expenditure ceiling, then the Ministry of Finance in an urgent situation could submit a request for "additional budget expenditure" (Anggaran Belanja Tambahan) for rapid legislative approval.[36]

Alternatively, Indonesia would appropriate funds as part of the regular budget process. A proposal for budget allocation should be finalized in March-April and would be approved by the end of October.

Indonesia does have a disaster contingency fund (dana kontinjensi bencana) which can be deployed at the pre-disaster stage as well as a ready-to-use fund (dana siap pakai) reserved for natural disasters or state of emergency. Formally, according to the Government Regulation concerning Funding and Management of Disaster Assistance, neither of these reserve funds can be used for the materialisation of liabilities.

1.21 **Saudi Arabia**[37]

MDBs	Callable Capital Commitments (US$ billions)
IBRD	7.897
AfDB	0.198
IDB	NA
ADB	NA
EBRD	NA
AIIB	2.035
Total	**10.130**

Saudi Arabia's CC commitments are funded by the Saudi Development Fund (SDF), thus responding to a call would only

[35] Indonesia's Government Accounting Standard does not distinguish between contingent and non-remote (current) liabilities.
[36] as per the State Finances Law 17/2003 (and Regulation 119/PMK.02/2009; 69/PMK.02/2010).
[37] Saudi Arabia has not provided written responses or been interviewed for the purposes of this research, all information presented is based on the author's interpretation of publicly available documents.

require approval from the Ministry of Finance and would take maximum 2 to 3 months.

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