



**Foreign, Commonwealth
& Development Office**

**Minister of State for Development,
Anneliese Dodds MP, FCDO**

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16 October 2024

Sir Geoffrey Clifton-Brown MP
Chair, Public Accounts Committee
House of Commons
London
SW1A 0AA

The Rt Hon Emily Thornberry MP
Chair, Foreign Affairs Committee
House of Commons
London
SW1A 0AA

Sarah Champion MP
Chair, International Development Committee
House of Commons
London
SW1A 0AA

Dear Sir Geoffrey, Emily and Sarah

I am writing to notify you of a new UK guarantee of \$280m (£210m) that the Foreign Commonwealth and Development Office (FCDO) is proposing to make to the Asian Development Bank's (ADB's) Innovative Finance Facility for Climate in Asia and the Pacific (IFCAP).

IFCAP is a mechanism developed by the ADB that aims to unlock up to \$11bn of new climate finance for developing countries in the Asia-Pacific region. The additional climate finance unlocked by IFCAP will help to mitigate carbon emissions in some of the highest-polluting countries globally, and support resilience to natural disasters in the most climate-vulnerable populations.

Through IFCAP, the UK and other development partners (including the US, Japan, Korea, Sweden and Denmark) will contribute a combination of guarantees and grants to the ADB (the UK will only provide guarantee support), which will unlock new climate lending from the Bank.

For the UK guarantee, the maximum total payout over its lifetime would be \$280m (£210m), and the annual estimated payout for IFCAP is £6m per year over the 25-year lifetime of the guarantee.

UK guarantees enable the Multilateral Development Banks (MDBs) to increase lending beyond the amount their credit policies would ordinarily allow. By protecting the ADB against the risk of non-payment on some of its loans, the UK guarantee enables the Bank to take more risk and make more investments. One of the recommendations of the G20 Independent Review of Capital Adequacy Frameworks is to make greater use of guarantees to expand MDB lending.

IFCAP adds to FCDO's growing portfolio of MDB guarantees. Since COP26, the UK has announced guarantees that will unlock more than \$6bn of additional MDB finance for African, Asian and Pacific countries. This has positioned the UK as a leader in using guarantees to unlock MDB finance. This leadership has had a demonstration effect, with other guarantors, including Japan and the US, now committing MDB guarantees for the first time.

UK contingent guarantees have no upfront cost (except administration costs). ODA budget is only required if there is a default on a guaranteed loan and the UK is required to pay out. The chance of a default on a MDB loan is significantly reduced by the MDB's Preferred Creditor Status.

The previous Government approved the Business Case for this guarantee and the UK guarantee was announced at the UN Sustainable Development Goal (SDG) Summit in New York in September 2023. I have given my approval for this guarantee to go ahead, subject to parliamentary processes being completed. HM Treasury has also approved the proposal.

Please raise any questions or objections by 7 November. Final approval to proceed with incurring the liability will be withheld pending an examination of any objections.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Anneliese Dodds', with a long, sweeping horizontal line extending to the right.

Anneliese Dodds MP

Minister of State for Development, FCDO

Departmental Minute to the House of Commons

15th October 2024

Minister of State for Development, Anneliese Dodds MP

Foreign, Commonwealth and Development Office

Innovative Finance Facility for Climate in Asia and the Pacific (IFCAP)

It is normal practice, when a Government Department proposes to undertake a contingent liability in excess of £300,000 for which there is no specific statutory authority, for the Minister concerned to present a Departmental Minute to Parliament giving particulars of the liability created and explaining the circumstances; and to refrain from incurring the liability until 14 parliamentary sitting days after the issue of the Minute, except in cases of special urgency.

This Departmental Minute sets out details of a new liability to be undertaken by the Foreign, Commonwealth and Development Office (FCDO). The liability is a guarantee of \$280m (£210m) to the Asian Development Bank's (ADB) Innovative Finance Facility for Climate in Asia and the Pacific (IFCAP). The guarantee will have no upfront cost to the UK. The length of this liability is 25 years.

I am making a Written Ministerial Statement to the House on this matter and have separately notified the Chairs of the Public Accounts Committee, Foreign Affairs Committee, and International Development Committee of the UK's intention to undertake this liability.

There is huge demand for finance, especially for climate transitions, in Asia. The ADB has pledged to become the 'climate bank of Asia', and in line with UK asks, announced an ambition to commit \$100bn at COP26 to climate finance projects between 2019-2030. This will require a doubling of its climate finance commitments in the second half of this decade compared to 2019-2023.

IFCAP is a mechanism developed by the ADB that will support this ambition. Through IFCAP, the UK and other development partners will provide guarantees to the ADB. Together, this will unlock up to \$11bn of new affordable climate finance from the ADB to middle-income countries in Asia and the Pacific – of which \$1.2bn is directly as a result of the proposed UK guarantee. The additional climate finance unlocked by IFCAP will help to mitigate carbon emissions in some of the highest-polluting countries globally, and support resilience to natural disasters in the most climate-vulnerable populations.

The UK guarantee would pay out through the ODA budget, up to a limit, the value of any missed repayment within six months if there were to be a default to the ADB by a country in the portfolio of loans guaranteed under IFCAP. The maximum total payout would be \$280m (£210m), and the annual estimated payout for IFCAP is £6m per year over the 25-year lifetime of the guarantee. The guarantee provides powerful credit

relief to the ADB, allowing them to increase climate finance by up to \$4.50 for every \$1 guaranteed through IFCAP.

The impact of the guarantee on FCDO's risk exposure has been scrutinized and approved by the FCDO Accounting Officer. FCDO officials have worked with the Government Actuaries Department to model the risk of the guarantee. In the event that the guarantee is called, FCDO will have sufficient time to make the necessary budgetary arrangement to fulfil the requirements of the guarantee. Authority for any expenditure required will be sought through the normal supply procedure.

If any Member has questions, please do not hesitate to get in touch.