The Senate

Foreign Affairs, Defence and Trade Legislation Committee

African Development Bank Bill 2013 [Provisions]

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Table of Content

Abbreviations

ADB	Asian Development Bank
ADF (sometimes AfDF) or the Fund	African Development Fund
AfDB or the Bank	African Development Bank
AMA	Australian Multilateral Assessment
AfDB Group or the Group	African Development Bank Group
ATNIA	Australian Treaty National Interest Analysis
AusAID	Australian Agency for International Development
DFID	Department for International Development (United Kingdom)
EBRD	The European Bank for Reconstruction and Development
EITI	Extractive Industries Transparency Initiative
GCI	general capital increase
G20	Group of Twenty countries
IMF	International Monetary Fund
iRAP	International Road Assessment Programme
IRM	Independent Review Mechanism
MDBs	Multilateral Development Banks
MOPAN	Multilateral Organisation Performance Assessment Network
NGO	Non-government organisation
ODA	Overseas development assistance
OECD	Organisation for Economic Co-operation and Development
OPEV	Operations Evaluation Department
SDRs	Special Drawing Rights
UK	United Kingdom

US	United States of America
USD	Unites States dollar

Chapter 1
Introduction

1.1 On 30 May 2013, the Hon Mr Bernie Ripoll, Parliamentary Secretary to the Treasurer and Parliamentary Secretary for Small Business, introduced the African Development Bank Bill 2013 (the bill) into the House of Representatives.[1] That same day, on the recommendation of the Selection Committee, the bill was referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade.[2] This committee was to review the commitments Australia would enter into on becoming a member of the African Development Bank Group (AfDB Group or the Group).[3]

Referral

1.2 On 18 June 2013, the Senate referred the provisions of the bill to the Senate Foreign Affairs, Defence and Trade Legislation Committee (the committee) for inquiry and report by 20 August 2013.[4] In undertaking the inquiry, the Senate asked the committee to examine in particular the additional financial and human resources that the Commonwealth Treasury and the Australian Agency for International Development (AusAID) would require to support Australia's engagement with the AfDB Group. The committee was also to consider the effectiveness of the Group's governance structures.[5]

1.3 The AfDB Group comprises three distinct entities: the African Development Bank (AfDB or the Bank), which is the parent institution; and two affiliates, the African Development Fund (ADF or the Fund) founded in 1973 and the Nigerian Trust Fund, established in 1976.[6] For the purposes of this inquiry, which is concerned with Australia's proposed membership of the Group, the committee's consideration is limited to the AfDB and ADF.

Conduct of inquiry

1.4 The committee advertised the inquiry on its website and wrote to relevant ministers and departments calling for written submissions. It also contacted a number of other organisations, including Transparency International Australia and the Australian Council for International Development, and relevant businesses and

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1 *House of Representatives Hansard*, 30 May 2013, p. 4528.

2 *House of Representatives Hansard*, 30 May 2013, p. 4610.

3 Selection Committee, Report No. 82, *Report relating to the consideration of bills introduced 27 to 30 May 2013*, in *House of Representatives Hansard*, 30 May 2013, p. 4610.

4 *Journals of the Senate*, No. 148, 18 June 2013, pp. 4048–4049.

5 Selection of Bills Committee, *Report No. 6 of 2013*, 18 June 2013, Appendix 1.

6 African Development Bank Group, *AfDB in Brief*, May 2013, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfDB%20in%20Brief.pdf (accessed 20 June 2013).

academic institutions inviting them to make submissions to the inquiry. The committee received 5 submissions, which are listed at Appendix 1.

1.5 On 5 August 2013, the 43rd Parliament was prorogued. Senate committees, however, are authorised to continue to meet and transact business, such as conduct hearings and make reports, after a prorogation if they choose to do so. Reports which are due by a particular date under an order of the Senate should be presented to the President by the due date.[7] The committee decided to proceed with its deliberations on the legislation and to table a report.

Recent research

1.6 A number of recent reviews and inquiries have made findings relating to Australia becoming a member of the AfDB Group. They include a 2011 independent review of Australia's aid effectiveness, AusAID's 2012 assessment of multilateral organisations, an Australian Treaty National Interest Analysis and an inquiry by the Joint Standing Committee on Treaties. Based on their work, a substantial body of current views and evidence is now available on this matter, all of which advocated Australia joining the AfDB Group. Submissions to this inquiry likewise supported this measure.

1.7 Overseas agencies have also recently undertaken a number of performance evaluations of the Bank, including a review by the United Kingdom's Department for International Development and an assessment by the Multilateral Organisation Performance Assessment Network (MOPAN).[8] The Bank itself undertakes appraisals including its Annual Development Effectiveness Review. In considering Australia's proposed membership of the AfDB Group, the committee has drawn significantly from these various sources.

1.8 In response to the committee's request for additional information, Treasury and AusAID provided answers, which, in effect, gave added weight to the case for Australia becoming a member of the AfDB Group.[9]

1.9 In light of the substance and general thrust of the evidence, the committee decided that there was no need for a public hearing: that there was more than ample evidence available for the committee's deliberation and for members to make informed recommendations. Thus, this report takes account of the evidence and views gathered since the independent review of Australia's aid effectiveness highlighted the benefits of Australia becoming a member of the Group.

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7 See Harry Evans and Rosemary Laing, ed., *Odgers' Australian Senate Practice*, 13th ed., Department of the Senate 2012, pp. 189, 190, 332 and 487.

8 MOPAN is made up of 16 donor countries—Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, The Netherlands, Norway, Republic of Korea, Spain, Sweden, Switzerland and the United Kingdom. Each year MOPAN assesses several multilateral organisations for their organisational effectiveness. See Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank (AfDB)*, Volume 1, December 2012, p. i.

9 See Appendix 2 of this report.

Background to the African Development Bank Group

1.10 Established in 1964, the AfDB is the leading development financial institution in Africa.[10] The AfDB is a regional development bank belonging to a group of institutions known collectively as multilateral development banks (MDBs). This group includes the World Bank Group and three other regional development banks—the Asian Development Bank; the European Bank for Reconstruction and Development (EBRD); and the Inter-American Development Bank Group. MDBs provide 'financial support and professional advice for economic and social development activities in developing countries'.[11] Each bank draws its membership from both borrowing developing countries and developed donor countries and its broad membership extends to countries beyond the bank's particular region. Although the banks have similar mandates, each one has its own independent legal and operational status.[12]

1.11 The AfDB was modelled in many respects on the World Bank but is focused entirely on development in Africa.[13] The Bank provides concessional and non-concessional loans, grants and technical assistance to clients in regional member countries. The AfDB has a distinctly African character—its headquarters are in Africa, its investment operations are exclusively in Africa and the Bank's President is always African.[14]

1.12 Initially, only independent African countries were eligible to be shareholders in the AfDB but in 1982 the Bank opened its capital to non-African countries.[15]

10 African Development Bank Group, www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Integrity%20Anti-Corruption.pdf (accessed 20 June 2013) and *AfDB in Brief*, May 2013, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfDB%20in%20Brief.pdf (accessed 20 June 2013).

11 World Bank website, 'About Us—Affiliates', http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20040612~menuPK:41694~pagePK:43912~piPK:44037~theSitePK:29708,00.html (accessed 19 June 2013) and Commonwealth of Australia, *Independent Review of Aid Effectiveness*, April 2011, p. 333.

12 World Bank website, 'About Us—Affiliates', http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20040612~menuPK:41694~pagePK:43912~piPK:44037~theSitePK:29708,00.html (accessed 19 June 2013) and Commonwealth of Australia, *Independent Review of Aid Effectiveness*, April 2011, p. 333.

13 See for example, House of Commons, International Development Committee, *DFID and the African Development Bank*, Seventh Report of Session 2007–08, Volume 1, 8 May 2008, p. 5.

14 African Development Bank Group, *AfDB in Brief*, May 2013, p. 9, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfDB%20in%20Brief.pdf (accessed 20 June 2013).

15 African Development Bank, *AfDB in Brief*, May 2013, p. 7, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfDB%20in%20Brief.pdf (accessed 20 June 2013).

Currently, the Bank is owned and financed by 78 member countries, comprising 54 African countries (regional member countries) and 24 non-African countries (non-regional member countries).[16] As at June 2013, Libya, Australia and Turkey were in the final stages toward membership.[17] Australia must first become a State Participant in the ADF before it is eligible to become a member of the AfDB.

1.13 Over half of the non-regional members belong to the Group of Twenty (G20) countries and three quarters are members of the Organisation for Economic Co-operation and Development (OECD), including major economies such as France, Germany, Japan, the UK and the US. Australia is one of the few major OECD donors and one of only two developed G20 members (with Russia), that is not a member of the Bank.[18] Mr Robin Davies, Associate Director of the Development Policy Centre, Australian National University (ANU), noted that Australia 'is quite conspicuous by its absence from the AfDB membership'.[19]

1.14 In May 2012, the Minister for Foreign Affairs, Senator the Hon Bob Carr, announced that Australia would pursue membership of the African Development Bank, which would signal 'Australia's commitment as a long-term development partner to Africa'.[20] In July 2012, the Treasurer and Minister for Foreign Affairs restated the government's intention to pursue Australian membership of the AfDB and ADF 'to support Australia's efforts to overcome poverty and achieve the Millennium Development Goals in Africa'.[21] They noted that:

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16 African Development Bank Group, *Annual Report 2012*, p. v. South Sudan very recently became the latest member. See African Development Bank Group, 'Member countries', http://www.afdb.org/en/about-us/members/ (accessed 9 August 2013). The non-regional member countries are: Argentina, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Italy, Japan, Kuwait, The Netherlands, Norway, Portugal, Saudi Arabia, South Korea, Spain, Sweden, Switzerland, United Kingdom and United States of America. The United Arab Emirates is a member of the ADF only. See also, AusAID, *Australian Multilateral Assessment*, March 2012, p. 55 and Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank (AfDB)*, Volume 1, December 2012, p. 2.

17 President Donald Kaberuka, Opening remarks, Opening Session of the Second ADF 13 Replenishment Meeting, 12 June 2013, http://www.afdb.org/en/news-and-events/article/opening-session-of-the-second-adf-13-replenishment-meeting-opening-remarks-by-the-afdb-president-donald-kaberuka-12025/ (accessed 18 July 2013).

18 The Treasury and AusAID, *Submission 2*, p. 2 and the Development Policy Centre, Australian National University, *Submission 5*, p. 14.

19 *Submission 5*, p. 14.

20 Minister for Foreign Affairs, Senator the Hon Bob Carr, '2012–13 International Development Assistance Budget', Media release, 8 May 2012.

21 Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP and the Minister for Foreign Affairs, Senator the Hon Bob Carr, 'Australia to pursue membership of the African Development Bank to help overcome poverty', Joint media release, 17 July 2012, http://foreignminister.gov.au/releases/2012/bc_mr_120717b.html (accessed 16 July 2013).

> …the Bank is already a valued partner in Australia's increasing aid program in Africa and formal membership would demonstrate Australia's intent to remain a long-term partner in Africa's development.[22]

1.15 The Australian Government proposes to sign and ratify the *Agreement Establishing the African Development Fund* as amended and the *Agreement Establishing the African Development Bank* as amended. The Australian Treaty National Interest Analysis (ATNIA 23) noted:

> While the relevant provisions suggest, on the face of it, that accession alone would meet the requirements of the AfDB Agreement, firm advice to Treasury from the African Development Bank (AfDB) is that it expects Australia to sign and ratify both agreements.[23]

1.16 According to the ATNIA 23, Australia would take the following relevant actions:

- lodge a letter with the AfDB Group indicating Australia's intention to become a party to the ADF and AfDB Agreements and outlining the size of membership contributions that Australia would make;
- sign the ADF and AfDB Agreements after negotiations with the AfDB Group and the Terms of Membership have been approved by the Board of Governors; and
- following the passage of necessary legislation, lodge instruments of ratification for the ADF and AfDB Agreements, which the government intends to do between 1 July 2014 and 30 June 2015.[24]

1.17 The Treasury and AusAID informed the committee that in May 2013 Australia submitted a Formal Declaration of Intent to join the Bank in 2014–15, subject to passage of domestic legislation enabling Australia to become a Group member.

Scope of inquiry

1.18 The committee is inquiring into this enabling legislation, which prescribes the conditions under which Australia's initial and future contributions to the AfDB are made. A Treasury representative told the Joint Standing Committee on Treaties that the legislation would be 'a fairly simple piece of legislation' that would ratify the joining process for both the Bank and the Fund and provide the appropriation to buy the shares in the Bank.[25]

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22 Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP and the Minister for Foreign Affairs, Senator the Hon Bob Carr, 'Australia to pursue membership of the African Development Bank to help overcome poverty', Joint media release, 17 July 2012, http://foreignminister.gov.au/releases/2012/bc_mr_120717b.html (accessed 16 July 2013).

23 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraphs 1 and 2.

24 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraphs 3 and 4.

25 Joint Standing Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 4.

1.19 In this report, the committee focuses on the human resource and financial investments that Australia must make to become a member of the Bank and whether, in light of Australia's overseas development assistance policy, it represents value for money. In the following chapters, the committee considers:

- the purpose and provisions of the bill;
- the costs associated with Australia's proposed membership of the AfDB Group, including future financial commitments, and the anticipated benefits of becoming a member; and
- the governance structure of the Bank and the Fund.

Acknowledgements

1.20 The committee thanks all those who assisted with the inquiry. It especially acknowledges the contributions of those who made written submissions.

Chapter 2

Purpose and provisions of the bill

2.1 The purpose of the bill is to enable Australia to join the AfDB Group. To become a member, Australia must make payments as required under the *Agreement Establishing the African Development Bank* and the *Agreement Establishing the African Development Fund*. The bill would authorise the Australian Government to purchase membership shares in the AfDB and to make payments to meet membership and continuing subscriptions to the ADF.[1]

2.2 The bill comprises eight clauses. Clause 1 specifies the Act's short title—*African Development Bank Act 2013*; clause 2 specifies that the Act would commence on the day after the Act receives the Royal Assent; and clause 3 defines key terms in the legislation.

Authority to make payments to the African Development Bank

2.3 Clause 4 of the bill authorises the minister to purchase a fixed number of membership-related shares in the Bank. Specifically, it provides for the minister, on behalf of Australia, to make an arrangement for Australia to become a member of the AfDB and to subscribe to:

a) 5,912 paid-up shares of the authorised capital stock of the Bank at a price not more than 10,000 special drawing rights per share; and

b) 92,616 callable shares of the authorised capital stock of the Bank at a price not more than 10,000 special drawing rights a share.

2.4 The International Monetary Fund (IMF) created special drawing rights (SDRs) as an international reserve asset, which can be exchanged for freely useable currencies.[2] The value of SDRs is based on 'a basket of four key international currencies'—euro, Japanese yen, pound sterling and US dollar. SDRs also serve as the unit of account of the IMF and some other international organisations.[3]

2.5 While the bill, if enacted, would establish the legislative authority for the purchase of the 98,528 shares to become a member of the Bank, the Explanatory Memorandum makes clear that the minister 'may subscribe to, and pay for, only the specified number of shares'. It notes further that 'if, in the future, Australia wanted to subscribe to more shares, then the Act would be amended to authorise this'.[4]

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1 *African Development Bank Bill 2013, Explanatory Memorandum*, (Explanatory Memorandum), General outline and financial impact, p. 3.

2 IMF website, 'Special Drawing Rights (SDRs)', www.imf.org/external/np/exr/facts/sdr.htm (accessed 20 June 2013).

3 IMF website, 'Special Drawing Rights (SDRs)', www.imf.org/external/np/exr/facts/sdr.htm (accessed 20 June 2013).

4 Explanatory Memorandum, paragraph 1.11.

2.6 In respect of the callable shares, the Explanatory Memorandum notes that:

> …callable shares would only occur if the Bank could not otherwise meet its financial obligations and so explicitly requested payment for some or all of these shares from all Bank members.[5]

2.7 Payment for the Bank shares, including payments connected with securities issued for the payments of these funds, is to be drawn from Consolidated Revenue Funds.

Authority to make payments to the African Development Fund

2.8 To become a member of the AfDB, Australia, as a non-regional state, must first accede to membership of the ADF.[6]

2.9 Under clause 5, the minister, on behalf of Australia, may make an arrangement for Australia to subscribe to the Fund in connection with the initial subscription to become a member of, and any subsequent subscription to, the Fund.[7] The Explanatory Memorandum notes that payments for subscriptions to the Fund would come from money appropriated under other legislation, such as an annual appropriation.[8]

Authority to issue securities

2.10 Clause 6 of the bill authorises the minister to issue securities by Australia to make payments for Australia's initial subscription to shares in the Bank and to subscriptions to the Fund.

Executive power

2.11 The bill stipulates in clause 7 that the legislation would not limit the executive power of the Commonwealth.

Making rules

2.12 The legislation under clause 8 provides for the minister to make rules by legislative instrument prescribing matters:

a) required or permitted by the Act to be prescribed by the rules; or

b) necessary or convenient to be prescribed for carrying out or giving effect to the Act.[9]

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5 Explanatory Memorandum, paragraph 1.10.

6 *Agreement Establishing the African Development Bank as amended* , (Khartoum, 4 August 1963), Article 3; African Development Bank Group, *AfDB in Brief*, May 2013, p. 9, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfDB%20in%20Brief.pdf (accessed 20 June 2013).

7 Explanatory Memorandum, paragraph 1.12.

8 Explanatory Memorandum, paragraph 1.12.

9 The bill, clause 8.

2.13 In this regard, the Explanatory Memorandum indicates that it was not envisaged that any such rules would 'be required to give effect to the Act'. It explains:

> At the time of writing, however, it was Office of Parliamentary Counsel policy to ensure that all new legislation contains a clause to cover the scenario where the Government wants to make rules to further define certain parts of a new Act, including any amendments subsequently made to the Act.[10]

Statement of compatibility with Human Rights

2.14 The Explanatory Memorandum states that the bill 'does not raise any human rights issues'.[11] Consistent with this view, the Parliamentary Joint Committee on Human Rights found that the bill was 'unlikely to raise human rights concerns'.[12]

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10 Explanatory Memorandum, paragraph 1.15.

11 Explanatory Memorandum, paragraphs 2.8–2.10.

12 Parliamentary Joint Committee on Human Rights, *Examination of legislation in accordance with the Human Rights (Parliamentary Scrutiny) Act 2011, Bills introduced 27 May–6 June 2013,* Eighth Report of 2013, June 2013, p. 69.

Chapter 3

Membership—costs

3.1 Funding for Australia's membership of the AfDB Group 'forms part of the government's commitment to increase Australia's official development assistance over the long term'.[1] In this chapter, the committee examines in greater detail the financial and resource commitment Australia must make to become a member of the AfDB Group and whether membership would be a cost effective way to pursue Australia's national interests.

Preliminary funding

3.2 In its Budget Papers 2012–13, the government announced that it would provide $9.3 million over four years to commence the process of joining the Group. This funding was to be used 'to support the legislative, diplomatic and consultative processes' involved in becoming a member of the Bank.[2] The funding included $8.1 million to be absorbed from within existing AusAID resources, and $1.1 million for the Treasury, of which $0.8 million would be offset from the provision for expanded aid funding in the Contingency Reserve.[3]

Membership of the African Development Bank Group

3.3 The AfDB Group's overarching objective is to foster sustainable economic development and social progress in its regional member countries, 'thus contributing to poverty reduction'. The Group achieves this objective by:

- mobilising and allocating resources for investment in regional member countries; and
- providing policy advice and technical assistance to support development efforts.[4]

3.4 To join the Group requires a 'significant upfront investment in a one-off capital contribution' and 'a substantial annual contribution' to continue as a member. Thus, Australia must purchase Bank shares and make contributions to the Fund.[5] According to AusAID, contribution rates for the initial subscriptions to both the AfDB and ADF are based on Australia's International Monetary Fund quota, relative to other

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1 Commonwealth of Australia, *Budget*, *Budget Measures*, *Budget Paper No. 2, 2012–13*, p. 162.

2 Commonwealth of Australia, *Budget*, *Budget Measures*, *Budget Paper No. 2, 2012–13*, p. 162.

3 Commonwealth of Australia, *Budget*, *Budget Measures*, *Budget Paper No. 2*, *2012–13*, p. 162.

4 African Development Bank Group, 'Mission & Objective', http://www.afdb.org/en/about-us/mission-objective/ (accessed 17 July 2013).

5 See Joel Negin and Glenn Denning, *Study of Australia's approach to aid in Africa*, Final Report, commissioned study as part of the Independent Review of Aid Effectiveness, 21 February 2011, p. 31.

AfDB Group non-regional members.[6] The Explanatory Memorandum indicated that, at current forecast exchange rates, membership payments to the Group would total around $249 million, payable from 2014–15 to 2016–17.

Membership of the AfDB

3.5 In November 2012, Mr Shaun Anthony, Treasury, explained that Australia would be allowed to purchase a maximum shareholding of 1.43 per cent. He noted that in terms of the size of its shareholding at 1.43 per cent, Australia would be placed higher than Switzerland at 1.39 per cent and lower than Germany at 3.89 per cent. At that time, the United States had a 6.3 per cent shareholding.[7]

3.6 During the second reading speech, the Hon Mr Ripoll MP informed the House that Australia would purchase approximately $88 million (SDR 59.1 million) worth of shares at current forecast exchange rate. He stated that this amount, at less than 1.5 per cent of the bank's total capital stock, would place Australia as the bank's 20th largest shareholder and ninth largest non-African shareholder.[8]

3.7 The Treasury would administer the purchase of the $88.2 million worth of Bank shares to be paid over three years, 2014–15 to 2016–17.[9]

Capital increases

3.8 The AfDB uses the capital provided by its shareholders as a basis on which to borrow from the financial markets, and then on-lends these resources to eligible regional member countries. According to the Bank:

> Its capital base is therefore increased only as and when necessary in order to maintain its capital adequacy at the prudential level required. As its lending activities increase, so too must the capital reserves paid in by shareholders. This allows the Bank to continue to tap international capital markets and raise development and project finance which may otherwise not reach the continent.[10]

3.9 Periodically, multilateral development banks, such as AfDB, use a general capital increase (GCI) to boost their ordinary capital base. It is usually triggered by the need to ensure the adequacy of capital resources in keeping with the institution's

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6 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 22.

7 Joint Standing Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 5. The percentages change slightly over time. See African Development Bank, 'Distribution of voting power by executive director; statement of voting power as at 31 March 2013.

8 Mr Ripoll, *House of Representatives Hansard*, 30 May 2013, p. 4530.

9 Commonwealth of Australia, *Budget, Budget Measures, Budget Paper No. 2, 2013–14*, p.160. The Budget Papers estimated the value at $88.2 million.

10 African Development Bank, 'Frequently asked Questions on ADF', answer to question no. 4, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/FAQS%20on%20ADF%20Eng%20_2_.pdf (accessed 16 July 2013).

operational requirements and ability to 'sustain exogenous shocks'.[11] Since its inception, the AfDB has benefited from six GCIs—its fourth increase, or GCI IV, took place in 1987 while its fifth increase, GCI V, was adopted in 1998 and became effective in 1999.[12]

3.10 Discussions on the most recent increase—GCI VI—began in 2009 when members recognised that a capital increase would become necessary in 2011 'to provide the Bank with the capacity to respond adequately to the financial and economic crisis and support the scaling up of its operations'.[13]

3.11 All members of the Bank have the right to a proportion of the capital increase equivalent to their current shareholding.[14] Thus, as a member of the AfDB, Australia would have the right to purchase newly issued shares, which may arise through future general or special capital increases. While there is no obligation to purchase such shares, there is a general expectation that members would do so.[15]

3.12 AusAID informed the committee that there were no indications of a seventh GCI being initiated in the foreseeable future.[16]

Contingent liability

3.13 As part of its initial contribution, Australia would take on a contingent liability (callable capital) with the Bank. Thus, in circumstances where the Bank was unable to meet its financial liabilities, Group shareholders, including Australia, would be called on to contribute additional capital in proportion to their shareholding to resolve the default. The Explanatory Memorandum stated that Australia's contingent liability would stand at approximately $1.4 billion (at current forecast exchange rates).[17] According to Treasury and AusAID, callable capital is a standard feature of multilateral development bank membership and is 'only called on if the bank would

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11 African Development Bank Group, *The Sixth General Increase in the Capital Resources of the African Development Bank: Issues and Framework,* 25 March 2009, paragraph 6.1.

12 African Development Bank Group, *The Sixth General Increase in the Capital Resources of the African Development Bank: Issues and Framework*, 25 March 2009, paragraph 4.1 and African Development Bank Group website, 'The GCI Q&A', http://www.afdb.org/en/topics-and-sectors/topics/capital-increase/the-gci-qa/ (accessed 17 July 2013).

13 African Development Bank Group, *The Sixth General Increase in the Capital Resources of the African Development Bank: Issues and Framework*, 25 March 2009, paragraph 1.2.

14 African Development Bank Group, *The Sixth General Increase in the Capital Resources of the African Development Bank: Issues and Framework*, 25 March 2009, paragraph 6.1.

15 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 35.

16 Answer to question on notice no. 2 at Appendix 2.

17 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 36; Explanatory Memorandum, General outline and financial impact, p. 3 and the Treasury and AusAID, *Submission 2*, p. 10.

otherwise default'.[18] Treasury's submission indicated that Australia's liability would be:

> …reported in the Statement of Risks in the Budget, consistent with the treatment of similar arrangements at the World Bank and the ADB [Asian Development Bank].[19]

3.14 The Australian Treaty National Interest Analysis (ATNIA 23) stated that the Bank 'has never called on this extra capital, nor has any other multilateral development bank with similar provisions for callable capital'.[20] Treasury assessed the risk of the Bank defaulting on its debts and calling on capital as low, stating that such calls were 'unprecedented' and the Bank was regarded as a 'sound institution'.[21]

Membership of the African Development Fund

3.15 The Africa Development Fund (ADF) is the concessional arm of the AfDB Group and has supported low-income countries in Africa in their economic and social development since 1974. It 'contributes to the promotion of economic and social development in 40 least developed African countries' by providing generous concessional funding for projects and programs as well as for technical assistance for capacity-building activities.[22] This support has been provided on 'highly concessional terms, commensurate with the scale of countries' needs and their limited ability to repay loans'.[23] According to the Bank:

> No interest is charged on ADF loans; however, the loans carry a service charge of 0.75 per cent per annum on outstanding balances, and a commitment fee of 0.50 per cent per annum on undisbursed commitments. Project loans have a 50-year repayment period, including a 10-year grace period. Lines of credit have a 20-year repayment period with a five-year grace period.[24]

3.16 The Fund's resources come from subscriptions by the Bank, funds derived from operations accruing to the Fund and periodic replenishments by state participants, usually on a three-year basis. Also, the Fund may at intervals review the

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18 *Submission 2*, p. 10.

19 *Submission 2*, p. 10.

20 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 36. See also answer to questions taken on notice, question no. 1 at Appendix 2.

21 *Submission* 2, p. 10; Explanatory Memorandum, General outline and financial impact, p. 3. See also answer to questions taken on notice no. 1 at Appendix 2.

22 African Development Bank Group, 'African Development Fund (ADF)', http://www.afdb.org/en/about-us/african-development-fund-adf/ (accessed 17 July 2013).

23 African Development Fund, *ADF Long-Term Financial Sustainability and Capacity*, Discussion Paper, ADF-12 Mid-Term Review, September 2012, Praia, Cape Verde, paragraph 1.1.

24 African Development Bank Group, 'African Development Fund (ADF)', http://www.afdb.org/en/about-us/african-development-fund-adf/ (accessed 17 July 2013).

adequacy of its resources and, if it deemed desirable, authorise a general increase in members' subscriptions.

3.17 The Explanatory Memorandum indicated that, while approximately $88 million would be for paid-up membership shares to the Bank, Australia's initial membership subscription to the Fund would amount to around $161 million. Further, Australia would be expected to make additional regular payments to the Fund from 2014, the size of which would depend on future negotiations between Australia and the Fund and its donors.[25]

3.18 Budget Papers 2013–14 explained in greater detail that Australia's membership of the Fund would not only involve the initial contribution of $160.9 million but also payments towards the thirteenth and fourteenth Fund replenishments, scheduled for 2014–15 and 2016–17 respectively.[26] AusAID would administer Australia's membership of the Fund.

Replenishment funds

3.19 As noted earlier, unlike loans from a commercial bank, ADF loans are interest free and repayable over very long time frames with a 10-year period of grace.[27] In addition, countries with a moderate or high risk of debt distress that have reduced repayment capacity receive ADF grants.[28] The Fund explained that its resources must be replenished regularly through contributions because:

> …the level of reflows (loan repayments) is not sufficient to provide a substantial amount of new financing to meet the continent's development needs. Furthermore, the ADF's reflows have been strongly reduced through major debt forgiveness initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).[29]

3.20 The ADF has had 12 general replenishments on a three-yearly basis, with its twelfth resource replenishment concluded successfully in October 2010 for activities

25 Explanatory Memorandum, General outline and financial impact, p. 3.

26 Commonwealth of Australia, *Budget*, *Budget Measures*, *Budget Paper No. 2*, *2013–14*, p.161.

27 AfDB, 'Frequently asked Questions on ADF', answer to question 2, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/FAQS%20on%20ADF%20Eng%20_2_.pdf (accessed 16 July 2013).

28 AfDB, 'Frequently asked Questions on ADF', answer to question 2, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/FAQS%20on%20ADF%20Eng%20_2_.pdf (accessed 16 July 2013).

29 AfDB, 'Frequently asked Questions on ADF', answer to question 2, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/FAQS%20on%20ADF%20Eng%20_2_.pdf (accessed 16 July 2013).

in 2011–2013.[30] The bulk of subscriptions in recent successive three-yearly replenishments for the Fund were:

- eleventh replenishment (2008–2010), which achieved a replenishment of USD 8.90 billion; and
- twelfth replenishment of USD 9.50 billion, which, as noted above, finalised negotiations in October 2010.[31]

3.21 The Fund initiated negotiations for its thirteenth Fund replenishment in February 2013. Australia attended the opening session of the second ADF thirteenth replenishment meeting in June 2013.[32] These sessions provide the opportunity for donors 'to review past performance and agree policy directions for the future, as well as agreeing an overall target for the replenishment and relative burden-sharing among donors'.[33]

3.22 The ATNIA 23 referred to the option available to Australia to make replenishment payments, which would allow it to maintain its relative voting power.[34] It noted further:

> While there is no legal obligation to make such payments…there is an expectation that Australia will make such regular additional contributions to the AfDF at three-yearly replenishment meetings. The size and conditions around these payments would be decided by the Australian Government, in consultation with the AfDF and its other donor countries.[35]

3.23 In response to the committee's request for additional information on Australia's commitment to the thirteenth fund replenishment, AusAID stated that it was envisaged that Australia would make a contribution. It noted that the government would decide on the size of this contribution, based on Australia's development priorities for Africa and ongoing assessments of the Group's 'development effectiveness and its alignment with Australia's national interests and development priorities'.[36]

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30 African Development Bank Group, 'African Development Fund (ADF)', http://www.afdb.org/en/about-us/african-development-fund-adf/ (accessed 17 July 2013).

31 African Development Bank Group, *AfDB in Brief*, May 2013, p. 11, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfDB%20in%20Brief.pdf (accessed 20 June 2013) and Outcome of the ADF-12 Replenishment Consultations, 22 October 2010.

32 Dr Donald Kaberuka, President, Opening remarks, Opening Session of the Second ADF 13 Replenishment Meeting, 12 June 2013.

33 UK *House of Commons Hansard*, Debate, Overseas Development and Co-operation, 3 February 1992, vol 203, cc75–102.

34 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 34.

35 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 34.

36 Answer to question on notice no. 2(b) at Appendix 2 and *Submission 2*, p. 10.

Membership withdrawal

3.24 If Australia ceased to be a member of the ADF, the Fund and Australia would proceed to a settlement of accounts and agree on the amount to be paid to Australia. The ATNIA explained:

> If no such agreement is reached within 6 months from the date on which Australia ceased to be a member of the AfDF, or such later date as agreed, the AfDF Agreement provides that, among other provisions, the AfDF shall return to Australia its subscription or the principal repayments derived therefrom and held by the AfDF on the date on which Australia ceased to be a member of the AfDF, except to the extent that, in the opinion of the AfDF, such funds will be needed by the AfDF to meet its financial commitments of the AfDF Agreement.[37]

3.25 The ATNIA explained further that if Australia withdrew from the ADF Agreement during its membership, it would remain liable for its direct obligations and contingent liabilities to the Bank while any part of the loans or guarantees contracted before the termination date was outstanding.[38]

Additional resources

3.26 Mr Robin Davies, Associate Director, the Development Policy Centre, ANU, drew attention to additional resources Australia would call on if it were to engage actively with the Bank. He noted that AusAID's headquarters and its regional post in Pretoria, 'would need to do some of the work of coordinating the collection of views from field offices on the performance of the AfDB' and then feed those views to the Bank's headquarters in Tunis/Abidjan. Mr Davies stated further:

> AusAID would need to make available a substantial portion of the time of a senior officer, probably at first assistant secretary level, to engage with the bank in regular high-level consultations, support the Governor during annual meetings and act as Australia's 'deputy' during the replenishment negotiations which occur every three years, last for up to a year and involve numerous major and ancillary meetings. Staff working in the multilateral area of AusAID would need to prepare, keep up to date and regularly assess the progress of an engagement strategy with the AfDB. And membership of the bank would entail numerous consultation, liaison and related obligations for many other staff of the agency, from the Director General down.[39]

3.27 Treasury and AusAID referred to the $9.3 million allocated over four years to complete the legislative and treaty process (see paragraph 3.2). They indicated that these resources would also provide for Australia's continuing 'policy and program

37 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 38.

38 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 47. For additional information see AusAID's answer to question on notice no. 3 at Appendix 2.

39 *Submission 5*, pp. 23–24.

engagement with the Group, including support for the Group's ongoing operational reform and improved project performance'.[40]

3.28 Clearly, there are substantial costs involved in joining and remaining a member of the AfDB Group. One of the central questions before the committee is whether the benefits of joining the Bank balance or outweigh the costs.

Africa and Australia's overseas development assistance

3.29 The driving force behind Australia's overseas development assistance is to help people overcome poverty and achieve sustainable development by supporting progress against meeting the Millennium Development Goals.[41] Australia's aid program also serves Australia's national interests by promoting stability and prosperity in areas of strategic importance to Australia and helping to grow the global economy, which is 'good for Australian business'.[42]

Delivering assistance in Africa

3.30 Although many countries in Africa have recorded improvements in human development, progress on the continent has been slow. Of the fifty-one African countries on the Human Development Index, thirty-seven are rated as low on human development.[43] According to a recent economic outlook for Africa:

> Income inequality is widening and education and health indicators are deteriorating in some parts of the continent. As a result and, in addition to resurging cycles of conflict and a restricted access to finance and other services, many people have remained trapped in poverty, depriving them the benefits implied by higher economic growth.[44]

3.31 In recent years, the Australian Government and the public in general have shown a growing interest in Africa. Accordingly, the government has increased its engagement with African countries including through its overseas development assistance programs. AusAID explained that Australia's strategic approach to providing aid to Africa:

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40 *Submission 2*, p. 10. See also answer to question on notice no. 4 at Appendix 2.

41 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015,* December 2010, p. 3.

42 AusAID, *An Effective Aid Program for Australia: Making a real difference—Delivering real results,* updated June 2012, p. 6.

43 See Table 3, 'Human Development in Africa', in African Development Bank Group, OECD Development Centre et al, *African Economic Outlook 2013,* pocket edition, p. 15.

44 African Development Bank Group, OECD Development Centre et al, *African Economic Outlook 2013,* pocket edition, p. 15.

> …reflects the Government's commitment to being a good international citizen and to supporting global efforts to reduce poverty and achieve sustainable development.[45]

3.32 Australia directs its efforts to sectors where it is best placed to make a difference and where its resources can most effectively and efficiently be deployed.[46] Australia's priority areas for aid to Africa include:

- maternal and child health;
- water and sanitation; and
- food security and agriculture.[47]

3.33 AusAID also supports the work of governments in Africa to improve governance and transparency in their mining sectors and responds to humanitarian needs in Africa.[48]

Advantages in membership of the Bank

3.34 To deliver its aid objectives in Africa, Australia has relied on partnerships with organisations that have experience or expertise in Australia's priority areas. They include established African institutions, multilateral and bilateral donors and non-government organisations (NGOs), community based organisations and Australian institutions.[49]

Reputation—local knowledge and expertise

3.35 Multilateral organisations, including international financial institutions, have proven particularly effective in development assistance because of their network of

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45 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015,* December 2010, p. 8.

46 AusAID, *An Effective Aid Program for Australia: Making a real difference—Delivering real results*, updated June 2012, p. 1.

47 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015,* December 2010, p. 3; *Africa Annual Program Report 2011*, June 2012, p. 4, http://ausaid.gov.au/Publications/Documents/africa-appr-2011.pdf; and AusAID website, Sub-Saharan Africa, http://ausaid.gov.au/countries/Sub-saharan-africa/pages/how-aid.aspx (accessed 17 July 2013).

48 AusAID website, 'Sub-Saharan Africa', http://ausaid.gov.au/countries/Sub-saharan-africa/pages/how-aid.aspx (accessed 17 July 2013).

49 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015,* December 2010, p. 15.

specialist expertise and access to pooled resources from multiple donors.[50] Using African institutions likewise has distinct benefits. For example, they enable Australia, which has a small number of staff located in only five countries in Sub-Saharan African, to extend its reach and influence in geographic areas where it has 'no presence on the ground'.[51] AusAID also stated that:

> Working with African institutions demonstrates Australia's commitment to African-led development and support for broader bilateral relationships in Africa. Additionally, working through international and African partners provides Australia with greater access to policy discussion and analysis.[52]

3.36 In this regard, the AfDB is uniquely placed as a partner of choice for Australia's ODA goals in Africa. AusAID's consultation paper on Australia's proposed membership of the AfDB Group drew particular attention to the Group's majority African ownership. It argued that the Bank was 'better placed than any other development finance institution operating in the region to understand local and regional challenges and opportunities'.[53] It was a trusted partner of African governments able to gain access 'behind closed doors' which enabled the Bank, with a degree of credibility and authority, 'to tackle sensitive and difficult issues'.[54]

3.37 The independent review of Australia's aid effectiveness was of the view that, if well managed and presented, Australia's contribution 'could be a highly visible way of demonstrating commitment to the development of Africa, without adding to the

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50 AusAID observed that individual donors are unable to resolve key development challenges, particularly those facing fragile states that are at a higher risk of conflict, economic dependence on a limited range of commodities, a narrow public revenue and patronage-based distribution of resources. AusAID, *Africa Annual Program Report 2011*, June 2012, p. 3, http://ausaid.gov.au/Publications/Documents/africa-appr-2011.pdf (accessed 17 July 2013). See also Senate Foreign Affairs, Defence and Trade References Committee, *Australia's overseas development programs in Afghanistan*, May 2013, (pp. 62–77) which goes into detail about the advantages of contributing to the World Bank sponsored Afghanistan Reconstruction Trust Fund.

51 AusAID, *An Effective Aid Program for Australia: Making a real difference—Delivering real results*, p. 54. As at June 2012, the numbers of Australian staff in Sub-Saharan Africa were Ethiopia (six); Ghana (six); Kenya (14); South Africa (19) and Zimbabwe (7). AusAID, *Africa Annual Program Report 2011*, June 2012, p. 5, http://ausaid.gov.au/Publications/Documents/africa-appr-2011.pdf (accessed 17 July 2013).

52 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015*, December 2010, p. 15.

53 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and African Development Fund*, Consultation Paper, July 2012, p. 15.

54 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and African Development Fund*, Consultation Paper, July 2012, p. 15.

problems of donor proliferation.[55] Moreover, the review described the Bank as 'well respected'.[56]

3.38 In March 2012, AusAID released a report on 42 multilateral organisations which had been assessed against a framework that included seven components—three relating to results and relevance, and four to organisational behaviour.[57] This report, the Australian Multilateral Assessment (AMA), stated that the Bank 'generally enjoys strong relationships with government partners and engenders trust'.[58] Indeed, a 2012 survey undertaken by MOPAN found that all groups surveyed agreed that the nature of the organisation itself was the Bank's greatest strength—'a regional bank led largely by individuals who are familiar with and sensible to issues particular to the African continent and to Africans'. The survey also highlighted the Bank's 'talented pool of experts and sound financing capacities particularly for projects deemed "difficult"'.[59] The Bank's 2013 review of its development effectiveness found that it had made 'solid progress on improving aid effectiveness and bank staff are increasingly active participants in country-led dialogue and coordination processes'.[60]

3.39 AusAID noted the confidence that donors demonstrated in the Group through their recent US$9.6 billion contribution to the 12th replenishment Fund—the largest replenishment in the Fund's history.[61]

Synergies and complementarities

3.40 AusAID already has a working relationship with the Bank and has been engaged with the institution at project-level for some time.[62] In 2009, Australia established partnerships with a number of organisations including the AfDB to improve access to water and sanitation in southern and central Africa.[63] AusAID reported that:

> Bilateral support to Malawi and Mozambique, delivered through partnerships with the African Development Bank and World Bank

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55 *Independent Review of Aid Effectiveness,* April 2011, p. 141.

56 *Independent Review of Aid Effectiveness,* April 2011, pp. 11–12.

57 AusAID, *Australian Multilateral Assessment*, March 2012, p. x.

58 AusAID, *Australian Multilateral Assessment*, March 2012, p. 58.

59 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank (AfDB),* Volume 1, December 2012, p. 19.

60 African Development Bank Group, *Annual Development Effectiveness Review 2013,* p. 45.

61 Answer to question on notice no. 1(b) at Appendix 2.

62 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015,* December 2010, pp. 11 and 15.

63 AusAID, *Africa Development Cooperation Report 2009*, p. 5, http://ausaid.gov.au/Publications/Documents/2009-Africa-dcr.pdf (accessed 17 July 2013).

respectively, will focus on the provision of water and sanitation facilities and institutional development.[64]

3.41 For example, in partnership with the AfDB, Australia contributed to a project intended to enable communities in seven market centres in Malawi to benefit from water supplies.[65]

3.42 In 2010, AusAID indicated that it would continue to support the World Bank's Water and Sanitation Program and the AfDB's African Water Facility with its focus on water and energy infrastructure.[66] In 2011, AusAID remained engaged with the Bank on the water and sanitation program in Malawi and the African Water Facility. At this time, a study commissioned as part of the independent review of Australian aid effectiveness suggested that:

> For Australian investments in water and sanitation and food security in focus countries, AusAID would likely be able to partner with the AfDB to co-finance and perhaps scale-up. AfDB expertise and investments in irrigation and roads would complement and enhance the value of AusAID's agriculture and food security initiatives and, in WATSAN [water and sanitation] projects, the AfDB could provide much-needed scale. This would provide, in the words of one interviewee, 'bigger bang for [AusAID's] buck'.[67]

3.43 The study recommended that AusAID 'expand its functional partnership with the AfDB for two to three years on a few significant investments (as is currently done in Malawi) with a view to possible full membership by 2015'.[68]

3.44 The independent review of Australia's aid effectiveness also recommended that Australia join the Bank which it described as an organisation that focuses on what it does well—infrastructure and promoting regional integration.[69] It found evidence of a good partnership between AusAID and the Bank.[70]

3.45 Before the Joint Committee on Treaties, AusAID referred to the 'strong congruence between the AfDB's strategic direction and AusAID's current focus on

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64 AusAID, *Africa Development Cooperation Report 2009*, p. 7, http://ausaid.gov.au/Publications/Documents/2009-Africa-dcr.pdf (accessed 17 July 2013).

65 AusAID, *Annual Report 2009–2010*, p. 99.

66 AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015*, December 2010, p. 11.

67 Joel Negin and Glenn Denning, *Study of Australia's approach to aid in Africa*, Final Report, commissioned study as part of the Independent Review of Aid Effectiveness, 21 February 2011, p. 31.

68 Joel Negin and Glenn Denning, *Study of Australia's approach to aid in Africa*, Final Report, commissioned study as part of the Independent Review of Aid Effectiveness, 21 February 2011, p. 31.

69 *Independent Review of Aid Effectiveness*, April 2011, pp. 11–12.

70 *Independent Review of Aid Effectiveness*, April 2011, p. 138.

Africa'. It stated that addressing poverty was central to the Bank's core mandate which matched the fundamental purpose of Australia's aid program and that the Bank's priorities aligned with the strategic goals of Australia's African aid program.[71]

3.46 Infrastructure is a particular priority for the AfDB that aligns with Australia's aid objectives and interests in Africa. For example, in his closing statement at the 2013 AfDB Annual Meeting, the President of the Bank acknowledged that there was a consensus that 'with Africa's economies at a turning point, the infrastructure deficit is an important binding constraint'. He said:

> Drawing on experience from other countries, we all agree that unless African countries can unblock this, at some point the current growth momentum will be interrupted and will not be sustained'.[72]

3.47 AusAID's consultation paper recorded that 70.9 per cent of the AfDB's loan and grant approvals were in infrastructure.[73] Mr Davies, the Development Policy Centre, also noted the close association between AfDB and Australian priorities, particularly in the area of major infrastructure projects. He observed that:

> …supporting the AfDB, as an infrastructure bank and a bank committed to supporting regional integration and the provision of regional public goods, is strongly consistent with both Australia's objectives in the G20 and its commitment to helping ensure that oil, gas and mining investments contribute to better national development outcomes in developing countries—particularly fragile and conflict-affected states.[74]

3.48 As well as partnership projects with the AfDB and strong alignment of priorities, there is a notable degree of geographical overlap between the top ten recipients of Australian aid to Africa and the top ten recipients of ADF disbursements. Mr Davies drew attention to Ethiopia, Tanzania, Kenya and Uganda which are major recipients of aid from both Australia and the ADF.[75]

3.49 In brief, the Bank is an ideal mechanism through which Australia can deliver assistance to Africa because the Bank:

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71 Joint Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 1.

72 President Donald Kaberuka, Closing statement, Closing Session of the 2013 AfDB Annual Meetings, 31 May 2013, http://www.afdb.org/en/news-and-events/article/closing-session-of-the-2013-afdb-annual-meetings-closing-statement-by-the-afdb-president-donald-kaberuka-12023/ (accessed 18 July 2013).

73 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and African Development Fund*, Consultation Paper, July 2012, p. 16.

74 *Submission 5*, p. 16.

75 *Submission 5*, p. 14.

- specialises in and has a better understanding of African issues, of regional needs and priorities than other development agencies;[76]
- is a trusted partner of African governments and plays an effective role in promoting donor coordination at regional and country-level thereby reducing potential for duplication and inefficiency;[77]
- is the leading and trusted voice of Africa on the world stage and its representative in international fora;
- allocates a large share of its resources to infrastructure and regional integration which complements Australia's development priorities in Africa and builds on projects that Australia is already funding (agriculture and food security initiatives and water and sanitation projects);[78] and
- provides a level of experience and on-the-ground presence in Africa that Australia cannot match—the Bank's decentralisation strategy has resulted in the formal supervision of 64 per cent of operations in 2012.[79]

Cost effectiveness

3.50 Importantly, the AfDB Group is recognised as a cost effective means of delivering aid in Africa. The UK's multilateral review rated the Bank's concessional lending arm, the ADF, 'highly for its organisational effectiveness and value for money'.[80] It scored the Fund as strong on organisational strengths and good on overall assessment of value for money.[81]

3.51 The independent review of Australia's aid effectiveness was of the view that Australia's membership of the Bank would 'represent value for money and be a high-level indication of Australia's commitment to development in Africa'. It stated

76 See for example, Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank (AfDB),* Volume 1, December 2012, p. 87.

77 AusAID, *Australian Multilateral Assessment,* March 2012, p. 57. See also AusAID, *Looking West: Australia's strategic approach to aid in Africa 2011–2015,* December 2010, p. 15.

78 AfDB website, 'ADF Key Messages', http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/ADF%20Key%20messages%20Eng%20_2_.pdf (accessed 19 July 2013).

79 African Development Bank, *Annual Development Effectiveness Review 2013,* p. 39; AusAID, *Australian Multilateral Assessment,* March 2012, p. 56; and Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank (AfDB),* Volume 1, December 2012, p. 87.

80 Department for International Development, *Multilateral Aid Review,* March 2011, p. 164. See also *Independent Review of Aid Effectiveness,* April 2011, p. 141.

81 Department for International Development, *Multilateral Aid Review,* March 2011, p. 164. See also *Independent Review of Aid Effectiveness,* April 2011, p. 196.

further that Australia's contributions to the Fund would 'represent a very efficient and effective way of scaling up assistance in Africa'.[82]

3.52 The AMA found that the Australian Government could have 'a reasonably high degree of confidence' that increases in core funding would deliver tangible development benefits in line with Australia's development objectives, and that the investment would 'represent good value for money'.[83] It found:

> AfDB has a clear mandate and over recent years has tightened its priorities around areas where it has a comparative advantage, particularly infrastructure and regional integration.[84]

3.53 Although the AMA rated the Bank as only satisfactory on cost and value consciousness, it noted that the Bank's governing body and management regularly focus on value for money and that the organisation was lean and efficient.[85] The assessment rated the Bank as strong on delivering results on poverty and sustainable development in line with its mandate and on its alignment with Australia's aid priorities and national interests.[86]

3.54 The ATNIA relied on the findings of the UK multilateral aid review and of the AMA to conclude that the AfDB Group 'would be an excellent partner in delivering Australia's aid to Africa'.[87]

Promoting Australian interests

3.55 The 2012 AusAID consultation paper noted that simply increasing project level funding would 'not advance Australia's interests to the same extent as membership to the AfDB would, in terms of spurring economic growth and increased trade opportunities continent wide'. It stated further:

> Nor would increasing levels of project funding be likely to help our reciprocal global agenda to the same degree. Other potential partners, including civil society groups, simply cannot operate at the scale or in the areas that the AfDB works.[88]

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82 *Independent Review of Aid Effectiveness*, April 2011, pp. 11–12 and 141.

83 AusAID, *Australian Multilateral Assessment*, March 2012, pp. xv and 31.

84 AusAID, *Australian Multilateral Assessment*, March 2012, p. 57.

85 AusAID, *Australian Multilateral Assessment*, March 2012, p. 58.

86 AusAID, *Australian Multilateral Assessment*, March 2012, pp. 55–56.

87 Australian Treaty National Interest Analysis [2012] ATNIA 23, Agreement Establishing the African Development Fund done at Abidjan on 29 November 1972, as amended [2012] ATNIF 17 and Agreement Establishing the African Development Bank done at Khartoum on 4 August 1963, as amended [2012] ATNIF 18, paragraph 19 and Commonwealth of Australia, *Budget, Budget Strategy and Outlook, Budget Paper No. 1, 2013–14,* p. 33.

88 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 20.

3.56 Thus, membership of the AfDB would not only provide Australia with the prospect of extending its reach and assistance in Africa but of opening up avenues for Australian enterprise. In this regard, AusAID noted that procurement was currently limited to members. It stated:

> If Australia becomes a member, Australian firms will be able to bid for AfDB work in all 54 African member nations, working alongside African governments, businesses and local communities. Australians will be helping Africans as they strive for sustainable economic growth and to reduce poverty. The 2006–2011 annual average total of contracts awarded by the AfDB was close to US$2 billion.[89]

3.57 AusAID's consultation paper on the proposal for Australia to join the AfDB Group also highlighted how membership would allow Australia to broaden and develop relationships with the Group's then 77 current shareholders to support its multilateral interests and assist Australia's role as a G20 and OECD member.[90]

3.58 The Australia-Africa Mining Industry Group supported Australia's membership of the AfDB Group. In its view, the Bank 'stands up well to international comparisons of its effectiveness and efficiency'. It stated further that 'the rapidly increasing economic importance in global terms and the growth in Australian commercial interests in Africa requires a concomitant engagement by government'.[91]

Mining

3.59 Australia has significant mining interests in a number of African countries many of which confront considerable social and economic problems. As a world leader in the mining sector, Australia is well positioned to provide assistance to African countries to help them manage the industry through improving their resource governance and better regulatory framework.[92]

3.60 A major Australian aid program, the Mining for Development Initiative, is central to the Australian Government's engagement with mining companies in Africa and is administered by AusAID. It is intended to draw on expertise from across government, industry and academia in Australia to help developing countries, such as those in Africa, address mining-related challenges.[93] Australia is also providing

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89 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 21.

90 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and African Development Fund*, Consultation Paper, July 2012, p. 19.

91 *Submission 1*.

92 See AusAID, *Mining for Development in Africa*, http://www.ausaid.gov.au/countries/ame/Documents/ausaid-mining-brochure-english.pdf (accessed 15 April 2013).

93 For a full discussion on Australia's assistance to the African mining sector see Senate Foreign Affairs, Defence and Trade References Committee, *Importance of the Indian Ocean rim for Australia's foreign, trade and defence policy*, June 2013, chapter 8.

support in Africa to the Extractive Industries Transparency Initiative (EITI). The initiative aims for better transparency through companies publishing their payments and governments disclosing their receipts from those companies. By doing so, the EITI seeks to promote better governance and reduce the risk of diversion or misappropriation of funds generated by the development of a country’s extractive industry resources.

3.61 Mr Davies, the Development Policy Centre, noted that the AfDB was doing work along similar lines to help African countries 'strengthen their legal expertise and negotiating capacity in debt management and litigation, natural resources and extractive industries management and contracting, investment agreements and related commercial and business transactions'. According to Mr Davies:

> Should Australia become a member of the AfDB, it would be indirectly supporting this facility and thereby furthering Australia's objectives in this area. In addition, one would expect the government to consider making a direct, voluntary contribution in support of its work.[94]

Infrastructure and technology

3.62 The International Road Assessment Programme (iRAP) noted that membership of the Bank would provide 'the conduit to prioritise and deliver development funds without the need for AusAID to duplicate country level engagement and governance in an often crowded international development space'.[95] It agreed that membership of the AfDB Group would provide 'a cost and resource effective way to engage and support development in Africa' and that the resources required to meet Australia's commitment would be justified.[96] The Programme referred to the Bank's networks throughout the country and its knowledge of Africa and its development requirements.[97]

3.63 In particular, iRAP drew attention to the pressing need to improve road and transport routes, indicating that road crashes were the biggest killer of young people worldwide. According to iRAP, road crashes are estimated to cost between 3–5% of GDP in Africa with per population death rates 5–6 times those in Australia despite lower levels of motorisation.[98] It stated:

> With rapid growth on the African continent expected there is an opportunity to lift the 3–5% of GDP annual burden of road crashes on economies by 'leap-frogging' traditional practice and delivering safe infrastructure at the early stages of development.[99]

94 *Submission 5*, p. 16.

95 *Submission 3*, p. [1].

96 *Submission 3*, p. [1].

97 *Submission 3*, p. [5].

98 *Submission 3*, p. [5].

99 *Submission 3*, p. [2] and [5].

3.64 Overall, it supported Australia joining the AfDB Group, which, in its view, would be of mutual benefit to Africa and Australia and would 'accelerate the pace at which poverty reduction through safe and sustainable development is achieved'.[100]

3.65 General Electric (Australia and New Zealand) likewise saw great advantages in Australia becoming a member of the Bank. It noted that seven in ten people in Africa still lacked access to modern electricity, and that reliable power was 'critical to unlocking the region's economic and human potential'. It cited its own work across Africa delivering 'technology solutions for regional challenges'.[101]

3.66 Clearly Australia has a comparative advantage in assisting Africa through its partnership with the AfDB Group to develop specific areas where Australia has expertise and commercial interests including mining, large infrastructure projects and technology. Indeed, as noted earlier, Australian aid and Australian businesses are ideally placed to support the AfDB, 'as an infrastructure bank and a bank committed to supporting regional integration and the provision of regional public goods'.[102]

Conclusion

3.67 Overwhelmingly, evidence before the committee highlighted the numerous benefits that would accompany Australian membership of the AfDB. Membership would:

- place Australia in a good position to participate in and influence Africa's development through a respected and credible regional institution;[103]
- help to reduce aid fragmentation and enable work to be carried out more effectively in more development areas than is 'possible when working alone or through bilateral mechanisms';[104]
- signal Australia's intent to become a long-term partner in Africa's development and allow Australia to forge deeper and stronger links with African governments and become a true and trusted partner;[105]
- give Australia access to important new networks in Africa and elsewhere that would provide opportunities to better contribute effectively to development outcomes on the continent;[106]

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100 *Submission 3*, p. [6].

101 *Submission 4*, p. 2.

102 See Mr Robin Davies, *Submission 5*, p. 16.

103 Mr Paul Griffiths, Joint Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 1.

104 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 5.

105 Joint Committee on Treaties, *Committee Hansard*, 26 November 2012, pp. 1–2 and AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 19.

- provide Australia with 'the opportunity to engage in policy dialogue on key issues and to better understand how member countries see African development problems, priorities and issues';[107]
- complement Australia's strategic aid objectives with the AfDB's focus on infrastructure and regional integration and 'help build an improved trade platform, resulting in further business opportunities for Australians through economic growth';[108]
- allow Australian firms to bid for AfDB work in all African member nations and 'to work alongside African governments, businesses and local communities', which in turn would help to 'build and expand trade platforms for Australian companies and create profiles and opportunities for Australian businesses in Africa';[109]
- allow access to important new networks through the AfDB's 78 current shareholders which Australia could use more effectively to support its multilateral interests, including trade liberalisation;[110] and
- support Australia's role as a G20 and OECD member, and more broadly reinforce Australia's role supporting the global multilateral architecture and making it more effective.[111]

3.68 On the whole, Australia's investment in the AfDB would not only be a cost-effective way to help Australia realise its development assistance objectives in Africa but would also promote Australia's broader diplomatic, economic, trade and national security interests throughout the region.

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106 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 5.

107 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 5.

108 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and African Development Fund*, Consultation Paper, July 2012, p. 19.

109 Joint Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 2 and AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 21.

110 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 19.

111 Joint Committee on Treaties, *Committee Hansard*, 26 November 2012, pp. 1–2 and AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 19.

Chapter 4

Governance

4.1 The committee has touched on the AfDB's corporate reputation and its effectiveness as a means of delivering aid to African countries. In this chapter, the committee looks at the Group's organisational structure and governance arrangements.

Organisational structure

4.2 The Bank is owned and overseen by its 77 members (recently increased to 78) and depends on the contributions from shareholders to cover its operating costs and to provide loans and grants. As at 31 May 2013, there were 53 regional members that held 59.712 per cent of the voting power. Nigeria was the largest shareholder with 8.586 per cent of the voting power and Egypt the second largest regional member with 5.455 per cent. There were 24 non-regional members, with the USA holding over 6 per cent of the voting power, Japan 5.5 per cent and Germany around 4 per cent.[1]

4.3 The Bank's powers, including the authority to issue general directives concerning credit policy, are vested in a Board of Governors that sits at the top of the Bank's organisational structure.[2] The Board meets once a year 'to review the implementation of past policy decisions and to deliberate on new policy issues initiated by them or by the institution's management'.[3]

4.4 Each member country is represented on the board by a governor or alternate governor who exercises the voting powers of his or her country. Governors are nationals of their respective member states and are expected to be persons of the highest competence with wide experience in economic and financial matters. Australia's membership arrangements for the Group would include the Treasurer being Australia's Governor to the Bank.[4]

4.5 Each AfDB member country has an equal number of basic votes in addition to a number of votes proportionate to its paid-in shares. No member country has veto power and, according to the Bank, board decisions are 'generally made through discussion and consensus rather than through the exercise of voting powers'.[5]

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1 African Development Bank, Distribution of voting power by executive director Statement of voting power as at 31 May 2013, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Boards-Document7/AfDB%20Statement%20of%20Voting%20Power%20at%2031%20May%202013.pdf (accessed 18 July 2013).

2 Article 29 of Agreement Establishing the African Development Bank as amended.

3 The Treasury and AusAID, *Submission 2*, p. 9.

4 The Treasury and AusAID, *Submission 2*, p. 15.

5 African Development Bank Group, 'Board of Governors', http://www.afdb.org/en/about-us/structure/board-of-governors/ (accessed 18 July 2013).

4.6 On the recommendation of the Board of Directors, the Board of Governors elects a president who must be an African.[6] The President chairs the Board for a five-year term that is renewable only once; is the Chief Executive and legal representative of the Bank; and conducts the Bank's business.[7]

4.7 The Board of Governors delegates its authority to a 20-member Board of Directors, which oversees the daily general operations of the Bank and ultimately approves all projects, policies and strategies. Governors of the regional members elect thirteen directors and governors of the non-regional members elect seven.[8] The Board of Directors functions in continuous session at the principal office of the Bank and meets as often as the business of the Bank requires.[9]

4.8 The AfDB President is also the President of the Fund as well as the Chairman of the Board of Directors. He or she 'determines the organizational structure, functions and responsibilities as well as the regional and country representation offices'. The President proposes to the Board of Directors the appointment of the Vice-Presidents who assist in the day-to-day management of the Bank Group.[10]

History

4.9 The inaugural meeting of the Bank's Board of Governors was held from 4–7 November 1964 in Lagos, Nigeria, and the headquarters was opened in Abidjan, Côte d'Ivoire, in March the following year. Since it commenced operations in July 1966, the Bank has experienced some challenges as its President, Mr Donald Kaberuka, explained to a non-regional governors forum in 2010:

> …the Bank is also the only MDB in the 1990s to have lost its AAA credit rating because of weak financials. It has taken almost ten years to rebuild the reputation and solid nature of the institution, from its financial perspective. The bank got back all the ratings in 2003. Since then your

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6 African Development Bank Group, 'About the President', http://www.afdb.org/en/about-us/structure/presidents-corner/about-the-president/ (accessed 18 July 2013).

7 African Development Bank Group, 'About the President', http://www.afdb.org/en/about-us/structure/presidents-corner/about-the-president/ (accessed 18 July 2013).

8 Article 33 of *Agreement Establishing the African Development Bank as amended*.

9 Article 34 of *Agreement Establishing the African Development Bank as amended*; and Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank*, Volume 1, December 2012, p. 2.

10 African Development Bank Group, 'About the President', http://www.afdb.org/en/about-us/structure/presidents-corner/about-the-president/ (accessed 18 July 2013).

> shareholder support, the single biggest influencing factor for rating agencies, has given us the capacity to serve our institution.[11]

4.10 AusAID explained that the Bank's unsustainable lending policies and practices was the major factor underpinning the Group's loss of its AAA credit rating. It explained:

> The Group was extending non-concessional loans to uncreditworthy member countries in order to spur their economic growth. As these loans were often not repaid, this created a high amount of debt within the Group.
>
> In 1995, the Bank elected Omar Kabbaj, a Moroccan financial official, as the new President. President Kabbaj moved swiftly to implement key fiscal and managerial reforms, most notable of which was limiting the number of countries accessing non-concessional lending, in order to turn around the Group’s indebtedness. The Group’s credit rating was restored to AAA in 2001.
>
> The current President, Mr Donald Kaberuka, elected in 2005, has continued his predecessor’s reform program.[12]

4.11 At the moment, the Bank operates from its temporary relocation agency in Tunis, Tunisia, having moved from its official headquarters in Abidjan in 2000 due to political upheaval in that country. The Group intends to move back to Abidjan in the near future.[13]

Internal mechanisms for good governance

4.12 The Treasury and AusAID noted that the Group had undergone 'a significant process of reform over the past decade' and was considered 'a strong performer in several key international reviews'.[14] Indeed, the Bank underwent major structural and operational changes before 2008 including decentralisation of activity to new field offices and a restructuring of key departments including expanded divisions working on governance and the private sector.[15] According to Mr Davies, the Development Policy Centre, ANU:

> Under President Kaberuka, the AfDB has clarified its strategy, adopted a more results-oriented approach, cleaned up its loan portfolio, put in place

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11 Donald Kaberuka, President, African Development Bank, Closing remarks at the non-regionals governors’ forum on the sixth general capital increase of the African Development Bank, Cape Town, 24 February 2010, paragraph 5, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/GCI%20Closing%20Remarks_President%20Kaberuka.pdf (accessed 18 July 2013).

12 Answer to question on notice, question no. 1(b), at Appendix 2.

13 African Development Bank Group, 'History', http://www.afdb.org/en/about-us/history/ (accessed 18 July 2013).

14 *Submission 2*, p. 1.

15 House of Commons, International Development Committee, *DFID and the African Development Bank*, Seventh Report of Session 2007–08, Volume 1, 8 May 2008, p. 6.

good systems for assessing its operational and organisational effectiveness, better aligned its country operations with national development strategies, made good progress toward decentralisation, begun to play a much more prominent role in regional and global policy forums and dramatically improved transparency.[16]

Transparency and accountability

4.13 Currently, the Bank has in place a number of mechanisms to promote accountability and transparency. They include:

- The Office of the Auditor General—responsible for 'planning, organizing, directing and controlling a broad, comprehensive program of auditing both internally and externally including without limitation all projects and programs of the Bank group'. The Office provides all levels of management with periodic, independent and objective appraisals and audits of financial, accounting, operational, administrative and other activities, including identifying possible means of improving accountability, efficiency of operations and economy in the use of resources.[17]
- The Operations Evaluation Department (OPEV)—an independent unit that 'undertakes evaluations of completed projects, sector policy reviews, country assistance evaluations, business process reviews and other studies relevant to the Bank's policies, operations and results'. The department also oversees the complete evaluation system within the Bank; internal and external communication of evaluation findings and lessons; and promotion of evaluation capacity development.[18]
- An Independent Review Mechanism (IRM)—provides people adversely affected by an AfDB's financed project with an independent mechanism 'through which they can request the Bank to comply with its own policies and procedures'.[19]

4.14 In 2008, the Group established a Quality Assurance and Results Department which led 'to the introduction of a new development results framework in 2011, new reporting tools at the organisation-wide level and new quality at entry processes'.[20] In 2011, as part of the AfDB Group's effort to sharpen its focus on results, the Bank

16 *Submission 5*, p. 7.

17 African Development Bank Group, 'Auditor General's Office', http://www.afdb.org/en/about-us/structure/auditor-generals-office/ (accessed 18 July 2013).

18 African Development Bank Group, 'Operations Evaluation', http://www.afdb.org/en/about-us/structure/operations-evaluation/ (accessed 18 July 2013).

19 African Development Bank Group, 'Independent Review Mechanism (IRM)', http://www.afdb.org/en/about-us/structure/independent-review-mechanism-irm/ and 'About the IRM', http://www.afdb.org/en/about-us/structure/independent-review-mechanism-irm/about-the-irm/ (accessed 18 July 2013).

20 The Treasury and AusAID, *Submission 2*, p. 7.

launched the first of its now annual Development Effectiveness Reviews.[21] The reviews are a comprehensive examination of the Bank's performance and although the focus is on the effectiveness of the institution's delivery of aid, it also covers essential corporate governance issues central to the Bank's operations.

4.15 The first review acknowledged that transparency was one of the most basic principles of good governance, which underpinned all of the Bank's operations. It noted that the Bank had endorsed the International Aid Transparency Initiative (IATI), which 'seeks to make it easier for the public to access, use and understand information on international aid'.[22] The review indicated that the Bank would work towards publishing information on all its operations in accordance with the IATI's standard.[23]

4.16 The most recent Annual Development Effectiveness Review likewise acknowledged the central importance of the Bank being able to demonstrate integrity, transparency and its accountability. It reported that the Bank had overhauled its disclosure policy in line with international best practice. The review also announced that the Bank had adopted a new framework for engaging with civil society organisations, which had been developed through 'extensive consultations'.[24]

Fraud and anti-corruption

4.17 The Bank is a member of the Joint International Financial Institutions Anti-Corruption Task Force and has signed the Uniform Framework for Preventing and Combating Fraud and Corruption.[25] It has an Integrity and Anti-Corruption Department, whose overriding mandate is 'to undertake unhindered investigations into

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21 See for example, US Department of the Treasury, *Justification or Appropriations, FY 2014 Budget Request*, p. 21.

22 IATI is a voluntary, multi-stakeholder initiative that seeks to improve the transparency of aid in order to increase its effectiveness in tackling poverty. The Initiative comprises 'donor and developing countries, civil society organisations and other experts in aid information who share the aspirations of the original IATI Accra Statement and are committed to working together to increase the transparency of aid'. See http://www.aidtransparency.net/about#sthash.JusZCEBF.dpuf (accessed 16 July 2013).

23 African Development Bank Group, *Annual Development Effectiveness Review 2011*, pp. 41–42.

24 African Development Bank Group, *Annual Development Effectiveness Review 2013*, p. 51.

25 On 18 February 2006, the leaders of the African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank Group, International Monetary Fund, Inter-American Development Bank Group and the World Bank Group agreed 'to establish a Joint International Financial Institutions Anti-Corruption Task Force to work towards a consistent and harmonized approach to combat corruption in the activities and operations of the member institutions'. http://siteresources.worldbank.org/INTDOII/Resources/FinalIFITaskForceFramework&Gdlines.pdf (accessed 18 July 2013).

allegations of fraud, corruption and misconduct within the Bank and Bank-financial activities'.[26] Its role is both reactive and proactive.[27]

4.18 This Department was originally created as a division within the Auditor General's Office but has gone through substantial changes over the last few years. In 2010, the unit was upgraded to a Department that reports directly to the AfDB President and to the Board of Directors. According to a progress report, these changes to the Department have:

> …not only heightened its visibility and weight within the organization, but also reinforced its independence. In addition, standard procedures for the conduct of investigations have been introduced and IT forensics capabilities significantly improved.[28]

4.19 When it comes to business integrity and anti-bribery efforts in Africa, the Bank regards itself as a major contributor to good governance and anti-corruption on the continent. It has partnered with the OECD to 'strengthen anti-bribery frameworks and practices and promote business integrity to provide an attractive environment for investment and sustained growth in the African region'.[29]An OECD publication observed:

> The AfDB is well placed, with its extensive knowledge of and experience of the African States, to meet its goal of positioning itself as the centre of excellence for good governance and a leader in anti-corruption efforts on the continent.[30]

The Treasury and AusAID noted that the Group has 'developed robust fraud and anti-corruption policies'.[31]

26 African Development Bank Group, Integrity and Anti-Corruption Department IACD, *Integrity and Anti-Corruption Progress Report 2009-2010*, pp. 9–10, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Integrity%20and%20Anti-Corruption.pdf (accessed 18 July 2013). See also The Treasury and AusAID, *Submission 2*, p. 6.

27 African Development Bank Group, Integrity and Anti-Corruption Department IACD, *Integrity and Anti-Corruption Progress Report 2009-2010*, p. 9, www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Integrity%20Anti-Corruption.pdf (accessed 18 July 2013).

28 African Development Bank Group, Integrity and Anti-Corruption Department IACD, *Integrity and Anti-Corruption Progress Report 2009-2010*, p. 11, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Integrity%20and%20Anti-Corruption.pdf (accessed 18 July 2013).

29 OECD, *Stocktaking of Business Integrity and Anti-Bribery Legislation, Policies and Practices in Twenty African Countries*, 2012, p. 13.

30 OECD, *Stocktaking of Business Integrity and Anti-Bribery Legislation, Policies and Practices in Twenty African Countries*, 2012, p. 25.

31 *Submission 2*, p. 6.

External reviews and assessments

4.20 As well as the Bank's internal mechanisms to guard against inappropriate corporate behaviour, a number of overseas countries or organisations have conducted their own assessment of the Bank's performance including its governance structure.

UK Department for International Development

4.21 In March 2011, the UK Department for International Development (DFID) undertook a multilateral aid review. It rated the Fund as strong on organisational strengths which included a number of factors that go to good governance including:

- public financial management that helps clients;
- good consideration of cost-effectiveness in project design;
- board and management that is effective at controlling administrative budgets;
- an independent evaluation department, whose evaluations are often acted on;
- though only 60 per cent of budget support is disbursed on schedule, predictable, transparent financing is generally the norm;
- extensive financial policies; and
- systematic and extensive publication of documentation.[32]

4.22 The review also referred to the Fund's Independent Review Mechanism (IRM) that, as noted earlier, provides an avenue for complaints and redress as a safeguard for the interests of local people and communities.[33] It found that it was 'very likely' that the Fund, the Bank's concessional lending arm, had made 'significant and demonstrable progress against ambitious reform agenda over the last three years'.[34] The UK's multilateral review rated the ADF, highly for its organisational effectiveness and value for money.[35]

Australian Multilateral Assessment

4.23 In March 2012, the Australian Multilateral Assessment (AMA) found that the AfDB’s Board provided 'adequate oversight of its policies and operations'. With regard to the Bank's independent Operational Evaluation Department, the AMA noted its 'strong and credible oversight of AfDB's use of monitoring and evaluation systems'. The AMA assessed the Bank's first annual development effectiveness review, as 'a credible report and an exercise in openness and transparency'.[36] Although it found that

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32 Department for International Development (DFID), *Multilateral Aid Review, Ensuring maximum value for money for UK aid through multilateral organisations,* March 2011, p. 164.

33 Department for International Development (DFID), *Multilateral Aid Review, Ensuring maximum value for money for UK aid through multilateral organisations,* March 2011, p. 58.

34 Department for International Development (DFID), *Multilateral Aid Review, Ensuring maximum value for money for UK aid through multilateral organisations,* March 2011, p. 164.

35 See *Independent Review of Aid Effectiveness,* April 2011, p. 141.

36 AusAID, *Australian Multilateral Assessment*, March 2012, p. 57.

the Bank had 'an organisation-wide system for monitoring and evaluating program performance', it was of the view that the Bank could 'evaluate a higher percentage of its programs'. It also reported that since 2005, AfDB had 'enjoyed very strong and transformative leadership under its President'. Even so, the AMA suggested that more improvements in human resource management were needed, 'particularly with transparency and the meritocracy of appointment processes, performance-incentive structures and career progression'.[37]

4.24 On the whole, it rated the Bank as strong for clear strategy and plans; satisfactory as an effective governing body; strong for its use of monitoring and evaluation systems and strong for effective leadership and human resource policies.[38] In respect of transparency and accountability, the AMA found that although the AfDB was a signatory to the International Aid Transparency Initiative (IATI), the Bank was not yet fully compliant.[39]

4.25 In this regard, it should be noted that recently the AfDB published data to the IATI detailing its public and private sector activities and provided 'precise geocoded information'. According to the IATI, the AfDB became 'the first multilateral development bank to provide this level of detail in IATI data'.[40] It observed further that the Bank's decision to publish the data reflected its 'commitment to transparency and accountability in the use of its resources…'[41]

4.26 The AMA was also of the view that the AfDB allocated resources 'in accordance with a transparent performance-based allocation formula'. It stated further that some of the Bank's programs focused on 'strengthening transparency and accountability in the management of public resources, at country, sector and regional levels'.[42] In addition, the AMA noted that the AfDB is a party to the cross-debarment agreement with the other multilateral development banks. Under this agreement, the banks mutually enforce each other's debarment actions, with respect to four harmonized sanctionable practices—corruption, fraud, coercion, and collusion.[43]

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37 AusAID, *Australian Multilateral Assessment*, March 2012, pp. 57–58.

38 AusAID, *Australian Multilateral Assessment*, March 2012, p. 57.

39 AusAID, *Australian Multilateral Assessment*, March 2012, p. 59.

40 International Aid Transparency Initiative, 'African Development Bank publishes to IATI', http://www.aidtransparency.net/news/african-development-bank-publishes-to-iati (accessed 16 July 2013).

41 International Aid Transparency Initiative, , 'African Development Bank publishes to IATI', http://www.aidtransparency.net/news/african-development-bank-publishes-to-iati (accessed 16 July 2013).

42 AusAID, *Australian Multilateral Assessment*, March 2012, p. 59.

43 AusAID, *Australian Multilateral Assessment*, March 2012, p. 59 and *Agreement for Mutual Enforcement of Debarment Decisions Among Multilateral Development Banks*, http://crossdebarment.org/oai001p.nsf (accessed 16 July 2013).

4.27 In summary, the AMA gave the Bank a strong rating for routinely publishing information; very strong for clear process for resource allocation; satisfactory for 'strong accountability mechanisms' and for promoting transparency of partners.[44]

Multilateral Organisation Performance Assessment Network (MOPAN)

4.28 According to both its 2009 and 2012 surveys, MOPAN found that respondents rated the Bank strong on half the questions related to financial accountability and adequate on the remainder. In 2012, it noted that respondents commended the Bank in particular for its internal and external audit processes.[45] Indeed, MOPAN noted that the Bank's 'good standing as a financial institution' was one of its strong areas.[46] The survey found that the Bank was noted for 'the transparency of its resource allocation decisions'.[47]

4.29 In important areas of corporate governance, the Bank received strong ratings for its policies and practices for audit and combating corruption. For example, with regard to the Bank's standing on anti-corruption, MOPAN assessed the Bank's policy and guidelines to combat fraud and corruption as very strong. It stated:

> The Bank's efforts are guided by the *Bank Group Policy on Good Governance* and the corporate-approved *Guidelines for Preventing and Combating Corruption and Fraud*. The Bank has also put into place several mechanisms for addressing and sanctioning fraudulent behaviours from either Bank staff or clients, and has a policy of 'zero tolerance' in this regard for staff members and executive directors, which is articulated in its *Code of Conduct*. The Bank's *Governance Strategic Directions and Action Plan for 2008-2012* lays out the Bank's plans for combating corruption at country, sector and regional levels, as well as in the Bank's adherence to the *Uniform Framework for Preventing and Combating Fraud and Corruption*, which consists of an agreement between several International Financial Institutions (FIs) aimed at enforcing a 'unified and coordinated approach to fight corruption and prevent it from undermining the effectiveness of their work.[48]

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44 AusAID, *Australian Multilateral Assessment*, March 2012, p. 59.

45 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank,* Volume 1, December 2012, p. 5.

46 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank,* Volume 1, December 2012, p. 19.

47 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank,* Volume 1, December 2012, p. 35.

48 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank,* Volume 1, December 2012, p. 40.

4.30 In activities such as risk management, procurement and contract management processes, the Bank was considered as adequate including procedures for responding and following up on irregularities.[49] Overall, MOPAN found that the Bank:

- had transparent systems in place for the allocation of resources (survey respondents believed that the Bank generally follows the criteria established for resource allocation);
- had introduced some tools to facilitate the implementation of results-based budgeting, but this has not yet become standard practice in the Bank and there remains considerable room for improvement in linking disbursements to results achieved;
- had sound practices and processes in place for financial accountability with external and internal audits seen as strong and adhering to international standards—the Bank's policies and guidelines for combating fraud and corruption were to be commended; and
- made use of performance information to improve its operations, but could improve its systems for tracking the implementation of evaluation recommendations that are accepted by management and reported to the Board.[50]

Continuous improvement

4.31 While the various reviews were generally satisfied with the Bank's governance arrangements, they identified areas where they thought the Bank could improve—the percentage of programs evaluated, human resource management, linking disbursements to results and tracking implementation of evaluation recommendations. In this regard, Mr Davies expressed concern that the 'generally positive aura around the institution will deflect attention from some important areas of continuing weakness'.[51] He stated that a careful reading of multiple recent assessments suggested there were still substantial problems in three areas—human resources management, decentralisation and business processes and practices. Mr Davies noted further:

> The Bank suffers from high staff turnover and high vacancy rates, has devolved people but not much authority to its 34 field offices, and is experiencing continuing problems with project implementation which manifest themselves in delayed start-ups, slow disbursement rates and client dissatisfaction with red tape.[52]

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49 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank,* Volume 1, December 2012, pp. xiii and 88.

50 Multilateral Organisation Performance Assessment Network, *Assessment of Organisational Effectiveness and Reporting on Development Results, African Development Bank,* Volume 1, December 2012, p. x.

51 *Submission 5*, pp. 8–9.

52 *Submission 5*, p. 11.

4.32 Although Mr Davies acknowledged that the Bank was a far more capable institution than it was in 2005, he warned of the risk of ignoring or downplaying problems and of the need to address them.[53] In this regard, member countries have an important role in monitoring and encouraging, even pressuring, the institution to improve its performance.

Shareholders' transparency and accountability mechanisms

4.33 The number of non-regional countries willing to contribute to the Group is testimony to the value they place on working with the Bank.[54] The Treasury and AusAID observed that donors demonstrated their confidence in the Group:

> …through a 200 per cent General Capital Increase in 2010, taking its capital base to some US$100 billion; and a 10.6 per cent increase in the AfDF's most recent replenishment, AfDF–12 (2011–2013), with donors agreeing to additional resources of US$9.5 billion.[55]

4.34 Thus donors have a vested interest in the Bank performing well. In this regard, they are able to monitor, review and assess the Bank's governance and financial and operating policies and practices. The committee has mentioned the UK multinational review, which provided a means of external appraisal of the Bank's policies and performance.

4.35 The committee has also referred to the three-yearly replenishments for the ADF. Each one of which has been preceded by comprehensive consultation with donors, which provided them with the opportunity to review the operation of the Fund.[56] For example, during negotiations for the twelfth replenishment, donors endorsed a policy framework which was intended to deepen 'existing strategic priorities of infrastructure, governance, regional integration and support for fragile states…'[57]

4.36 There is also a mid-term review of the replenishment process, which takes place approximately eighteen months after a replenishment enters into force.[58] During the replenishment and general capital increase consultations, donor countries are well placed to push for reforms to both the Group's practice and policies. For example, when the Bank was experiencing difficulties during the mid-1990s, donor members

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53 *Submission 5*, p. 11.

54 See also Joel Negin and Glenn Denning, *Study of Australia's approach to aid in Africa*, commissioned study as part of the Independent Review of Aid Effectiveness, Final Report, 21 February 2011, p. 31.

55 *Submission 2*, p. 7.

56 UK *House of Commons Hansard*, Debate, Overseas Development and Co-operation, 3 February 1992, vol 203, cc75–102.

57 Outcome of the ADF-12 Replenishment Consultations, 22 October 2010.

58 AfDB, 'Frequently asked Questions on ADF', answer to question 3, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/FAQS%20on%20ADF%20Eng%20_2_.pdf (accessed 16 July 2013).

directed their efforts towards strengthening the Bank's governance and financial and operating policies. According to the Canadian International Development Agency:

> Canada was among the most active and militant of the non-regional countries in holding back agreement on the replenishment until improvements were made in these areas. Indeed, rapid progress on the institutional issues was made after the arrival of a new President, in September, 1995, and this paved the way for the completion of the replenishment.[59]

4.37 The AfDB's largest non-regional shareholder, the US, noted that during the recent GCI negotiations, it was able to champion a number of key institutional reforms, which included:

> …adoption of a comprehensive income model to ensure financial sustainability, budget discipline, and steady transfers to the AfDB Fund, increased transparency and disclosure, stronger risk management, and a heightened focus on results.[60]

4.38 According to the US Treasury, these reforms improved the AfDB's 'institutional effectiveness by narrowing its strategic focus and strengthening controls on project quality'.[61]

Australia's role

4.39 As a non-regional member, Australia would also be able to have some involvement in holding the Bank to account and driving reforms where needed. Mr Davies was of the view that Australia, if it proceeded to join, could be part of the process of addressing problems 'through its role in overseeing the work of the institution'.[62] In this context, AusAID informed the committee that as a shareholder Australia could contribute:

> …to strengthening discipline and accountability on the AfDB Board and, in partnership with like-minded members, continue to push for deepening of institutional reforms and improvements in operational and development performances.[63]

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59 Canadian International Development Agency, *African and Asian Development Funds: A case Study of Policy Dialogue*, 2009.

60 According to the US Department of the Treasury, *Justification or Appropriations, FY 2014 Budget Request*, p. 20, US contributions to the sixth General Capital Increase 'helped the Bank to nearly triple its lending from an average of $1.8 billion' before the increase to over $5 billion annually by 2011. See US Department of the Treasury, *Justification or Appropriations, FY 2014 Budget Request*, p. 20.

61 US Department of the Treasury, *Justification or Appropriations, FY 2014 Budget Request*, p. 20.

62 *Submission 5*, p. 11.

63 AusAID, *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, Consultation Paper, July 2012, p. 20. See also the Treasury and AusAID, *Submission 2*, p. 3.

4.40 Mr Paul Griffiths, AusAID, told the Joint Committee on Treaties that Australia would be able to monitor the Bank's continuing performance by engaging on three levels:

- Board of Governors' meetings—the level of exchange and interaction and influence would depend on Australia's subscription to the Bank;
- regular high-level meetings, where Australia would be able to exchange views and resolve differences, which would provide Australia with the opportunity to influence policies and set future priorities for collaboration;[64] and
- operational-regional meetings which would provide Australia with the opportunity to converse with Bank staff and discuss country-level and regional level policies.[65]

4.41 Australia would also be able to contribute to improving the performance of the Bank through its bilateral development activities, such as co-financed projects complementing those of the AfDB, its development policy expertise and its diplomatic network in Africa.[66]

4.42 While Australia would be only one voice among the many other Bank members, all members have a clear interest in sound governance. Individually and jointly, they provide another level of scrutiny and an impetus for the Bank to improve its performance.

4.43 Mr Shaun Anthony, Department of the Treasury, explained further that the extent to which Australia could exert influence on the Bank's Board:

> …would all be dependent upon which constituency we join and how large the shareholding is, as well as our activities at the bank and our contributions to the concessional arm.[67]

4.44 Australia's contribution to encouraging good governance would also depend on the government's preparedness to become involved with the Bank's Board. Mr Davies observed that:

> Provided Australia's governor does in fact regularly engage with his or her counterparts from the bank’s regional member countries, this engagement would constitute a new and important line of diplomacy.[68]

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64 In its response to question on notice no 6, AusAID explained further 'through the Board of Directors, which has 20 directorships that represent the Bank’s (currently) 78 member countries through constituencies, and guides the Bank’s policies, projects, and programs. Relevant factors in negotiating to join a particular constituency are shareholding sizes, access to executive positions and consistent development priorities'. See Appendix 2.

65 Joint Standing Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 4.

66 Answer to question on notice no 6 at Appendix 2.

67 Joint Standing Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 5. See also answer to question on notice no. 6 Appendix 2.

68 *Submission 5*, p. 18.

4.45 In this regard, Mr Davies noted the possible appointment of the Treasurer as governor and the Minister for International Development (if there were to be such a minister) as the alternate governor. He was of the view, however, that it was unlikely that the Treasurer would be in a position to attend the annual meetings regularly and posed a second and 'better option'—appoint the Minister for International Development as governor and AusAID's Director General as alternate. He explained:

> …it is the aid agency that has the strongest stake in the operations of the institutions, and which has the greatest capacity to service government engagement with those institutions. There is little incentive for the Treasury to allocate substantial time and effort to servicing Australian engagement in the day-to-day oversight of the AfDB. In the event that there were no ministry for international development, it would be best to nominate the foreign minister as governor and the Director General of AusAID as alternate, simply because it will be important that person nominated as governor is in general willing and able to attend the bank's annual meetings.[69]

4.46 In response to the committee's request for AusAID's view on this matter, AusAID observed that the Bank's main objective is 'to promote sustainable economic development and social progress in regional member countries by mobilising and allocating financial resources'. It reasoned that:

> Given that economic and financial management, as well as legislative responsibility under the various development bank Acts, lies within the Treasury portfolio, it is appropriate for the Treasurer to be Australia's Governor to the AfDB. This practice is consistent with the Treasurer being Australia's Governor to other multilateral development banks (such as the ADB, EBRD and World Bank).[70]

AusAID informed the committee that the Treasurer would 'work closely with the Minister for Foreign Affairs and the Minister for International Development in progressing AfDB matters'.[71]

4.47 The committee draws the government's attention to Mr Davies' suggestion about nominating a minister who is closely connected to Australia's overseas development assistance as governor and the Director General of AusAID as alternate. In this regard, the committee notes AusAID's assurance that the Treasurer, who would be Australia's Governor on the Bank Board, and the Minister for Foreign Affairs would collaborate on promoting and supporting the work of the Bank. Also, as noted above, there are many other avenues through which the Minister for Foreign Affairs, the Director-General of AusAID and diplomatic staff more generally can support and promote Australia's interests through the AfDB Group.

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69 *Submission 5*, p. 21.

70 Answer to question on notice no. 8 at Appendix 2.

71 Answer to question on notice no. 8 at Appendix 2.

4.48 Even so, while substantial benefits are likely to flow from Australia's investment in the AfDB Group, Australia will need to have adequate and appropriate resources on the ground to ensure that every advantage is gained from its membership of the Group.

Conclusion

4.49 The committee has considered both the costs of Australia's membership of the AfDB Group and the governance of that institution. Clearly, the Bank is held in high regard by its current member countries and by independent assessments of the Bank's performance and governance arrangements. In the committee's view, Australia's investment in the AfDB Group should provide a significant return. Membership of the Bank would not only be a cost effective way to help Australia realise its development assistance goals in Africa but would also serve Australia's broader diplomatic, economic, trade and national security objectives throughout the region.

Recommendation

4.50 The committee recommends that the bill proceed.

Senator the Hon Ursula Stephens

Chair

Coalition senators' dissenting report

Coalition senators do not support the Bill

1.1 It is important at the outset to note that opposition to the Bill is neither a reflection of the African Development Bank (ADB) nor is it an antithetical view of the need to improve cooperation with our aid partners to further the development outcomes of the African continent.

1.2 Coalition senators oppose the Bill on the grounds that the Government's strategic priorities for Australia's aid program, and its track record of poor economic management of the same, are far from commendable.

1.3 We hold no dissention of the view that the ADB is a highly regarded institution that has some remarkable achievements in improving the lives of many Africans since its inception. The growth of the bank's membership to now include a number of the world's largest economies, including the United States and the United Kingdom, is testament to these accomplishments, as is the bank's steadfastness in returning to a AAA credit rating just over a decade ago. Many Africans have witnessed an improvement in their health and education standards and a reduction in inequality as a result of the bank's projects.

1.4 The coalition supports the Millennium Development Goals that go to the core of much of the ADB's operations but more needs to be done if Africa is to make valuable inroads in this area. In this regard, Australia will always stand ready to offer assistance to those that are in need and to the causes and aims we believe in.

1.5 Coalition senators believe, however, that providing support cannot come at any cost which is the case with the government's proposed membership of the ADB Group.

1.6 Australia's membership of the group would require an initial contribution of $249 million over three years at a time when the government is moving further away from the bi-partisan commitment of 0.5% of GDP to be provided as official development assistance (ODA). This quarter of a million dollars is just the start with additional ongoing payments necessary from 2014, the size of which are as yet undetermined.

1.7 The reality is that money is being borrowed from one country to be given to another. The coalition does not believe this is the correct way to go about membership of the ADB.

1.8 Only with a strong economy can we afford to provide the type of assistance that we should strive to achieve through membership of the ADB. Sadly, the Labor government cannot lay claim to such an economy.

1.9 Coalition senators believe that before further diluting our aid budget, more must be done to ensure current allocations are delivered the way they should be. As it stands, significant deficiencies remain.

1.10 AusAID is not meeting its performance benchmarks when it fails to address the poor conditions at Daru Hospital. The sale of Australian education scholarships for profit by so-called officials in Afghanistan is not evidence of our aid money being appropriated properly. Performance benchmarks are not being met when AusAID pushes money out the door in order to reach its expenditure targets.

1.11 At a time when the pressure on the nation’s finances is so great, the government should not be locking Australia into additional commitments at a cost of hundreds of millions of dollars. Coalition senators believe the focus right now should be on what is essential, not what is desirable.

1.12 Dissention to this report should not come as a surprise. In his 2012-13 budget-in-reply speech, the leader of the opposition, Hon Tony Abbott MHR, questioned why the Gillard Government was spending millions of dollars to join the ADB in an environment where it is actually borrowing money to support its ODA. Alarmingly, a proportion of our aid budget is even being spent on the off-shore processing of illegal boat arrivals.

1.13 Once again, the coalition has no objection to the fine work undertaken by the ADB and is similarly fully cognisant of the challenges that confront many African nations.

1.14 The coalition's objection centres on the fact the government has mismanaged the aid budget to the point that the time is not right to spread our already thinning ODA even further. A more appropriate time to consider the not insignificant cost of membership will only come when the nation's finances improve and when our aid budget is used most effectively.

1.15 Coalition senators oppose the Bill.

Senator Alan Eggleston
Deputy Chair

Senator David Fawcett

Additional Comments

Senator Lee Rhiannon for the Australian Greens

Introduction

1.1 The African Development Bank Bill 2013 enables Australia to become a member of the African Development Bank Group by authorising the payments required to subscribe to membership shares in the African Development Bank and meet membership and ongoing subscriptions to the African Development Fund (the AfDB Group). The third entity in the African Development Bank Group, the Nigeria Trust Fund, has not been considered in this inquiry.

1.2 This inquiry has examined the purpose and provisions of the African Development Bank Bill 2013 with particular attention to the substantial financial and human resources that must be provided by the Commonwealth Treasury and the Australian Agency for International Development (AusAID) to support Australia's engagement with the AfDB Group.

1.3 The committee has also considered the effectiveness of the African Development Bank and African Development Fund group's governance structures.

1.4 The additional comments to this report provided below give consideration to the work of the African Development Bank and Australia's potential membership of this organisation in the context of the United Nation's eight Millennium Development Goals.

1.5 As the MDGs unite international development efforts around the single focus of tackling poverty they provide a useful frame for this assessment.

The Greens

1.6 The Australian Greens believe Australia has a responsibility to contribute to long term development that is aimed at eliminating global poverty and enhancing self-reliance and community empowerment, while facilitating positive and equitable change in the social, economic and environmental conditions for the citizens of aid-recipient countries.

1.7 Australia should work to ensure that multilateral development banks adopt programs consistent with a human rights-based approach to development; be economically and environmentally sustainable; should promote local participation and gender equality; and should enhance the political, economic and social rights of the communities affected by funded projects.

1.8 Funding for long-term aid and development through multilateral development banks like the AfDB should be directed towards enhancing self-reliance in developing nations. Affected communities should be empowered with decision-making abilities informed by free, prior and informed consent, and with transparent mechanisms ensuring a right to accountability. The facilitation of environmental, economic, and social justice should be embedded into Australia's multilateral and bilateral aid work.

1.9 Our aid and development dollar should never subsidise or favour Australian businesses in recipient countries. Nor should our aid funds be used to facilitate Australian businesses' claims to a developing country's natural resources or access to contracts that lead to profits being exported from the recipient country, displacement or disempowerment of local communities and workers, or environmental degradation.

1.10 While many communities benefit from aid and development projects, some large infrastructure and resource development projects can cause widespread social injustice and disempowerment. Many communities have suffered the dispossession of their land, destruction of their environments, and ruin of their livelihoods, cultures and identities as a result of aid-development projects.

1.11 The Greens note that regional development banks, such as the African Development Bank, often focus on mega infrastructure project. In 2005 the AfDB dedicated almost 40 per cent of its funds[1] to large infrastructure projects, particularly in the energy and transport sectors.

1.12 While such projects may assist a country's overall economic development people living in poverty rarely receive any direct benefits. They often face eviction, loss of access to their land and local environmental damage. Regional banks also often fail to involve local people in the projects they fund.

1.13 Australia's involvement with the AfDB also needs to be assessed in the context of our priorities for Africa which include food security, natural resource management, water and sanitation, maternal and child health and human resource development.[2]

1.14 The intentions behind Australia's joining the AfDB Group have been identified as "growth in Australian commercial interests in Africa", "increased trade opportunities continent wide," and the ability for Australian firms "to bid for AfDB work in all 54 African member nations".

1.15 In short, the majority report's claim that substantial benefits are likely to flow from Australia's investment in the AfDB Group if Australia takes every advantage from its membership[3], suggests the overriding reason for joining the AfDB Group is one of commercial advantage for Australian companies "via procurement opportunities and infrastructure development".[4]

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[1] AllianceSud. Swiss Alliance of Development Organisations. Regional development banks – the great unknowns. 16/12/2010. http://alliancesud.ch/en/policy/finances/regional-development-banks/?searchterm=african%20development%20bank

[2] AusAID. Sub-Saharan Africa. Aust Govt. http://www.ausaid.gov.au/countries/sub-saharan-africa/Pages/default.aspx

[3] Senate Foreign Affairs, Defence and Trade Committee Inquiry. *African Development Bank Bill 2013 [Provisions]*. Report

[4] Senate Foreign Affairs, Defence and Trade Committee Inquiry. *African Development Bank Bill 2013 [Provisions]*. The Treasury and AusAid combined Submission.

Cost to Australia

1.16 The Greens do not subscribe to the idea that the giving of aid and development funding should have a commercial benefit to the donor country. Aid money should be used to alleviate poverty around the world. Australia's official mission statement on overseas aid requires that it "serves Australia's national interests". This approach is inconsistent with the MDGs.

1.17 The Committee report notes the "substantial benefits" of joining the AfDB Group but the report fails to quantify or describe these benefits.

1.18 The costs of joining and continuing membership costs of being a member of the AfDB are substantial.

1.19 $3.9 million has been allocated to Treasury and AusAID in the 2012-13 budget, for the preparation work to join the Group, and ongoing program engagement, which is expected to take up a substantial portion of time for a senior officer from AusAID. Ongoing membership obligations and engagement strategies is also expected to take up much time of AusAID staff from all levels.

1.20 Initial membership payments for the purchase of the maximum allowable shareholding of 1.43% in the Group total $88.2 million over 3 years from 2014-15 to 2016-17, and the one-off capital subscription is budgeted at $160.9 million for 2014-15 and 2016-17.

1.21 Subscription to the African Development Fund also requires regular three-yearly replenishments by donor countries that will be determined during each pledging round, and an emergency contingent liability of around $1.4 billion in the event of default of the bank would also be expected.

Recommendation: That the government publicly disclose details regarding the benefits of joining the AfDB and who will gain from those benefits.

The African Development Bank Group

1.22 The AfDB Group has the potential to contribute to the economic development and the social progress of African countries as a majority African-owned and run institution. Fifty-three regional African countries hold nearly 60% of the voting power and no one country has veto. There is a requirement that its President must always be African, and its operations and offices permanently reside in Africa.

1.23 The USA has the second highest voting power at 6.366%, after Nigeria with 8.739%. Non-regional countries have 40% of the voting powers.

1.24 The delegation of authority is with the Board of 20 Directors elected from member countries; of which 13 represent regional African countries. The Board oversees the daily general operations of the bank and approves all projects, policies and strategies.

1.25 The Group's stated objective is "the sustainable economic development and social progress of the African member countries of the Bank Group".[5]

1.26 The concessional arm of the AfDB Group, the African Development Fund (ADF) provides concessional funding loans and grants to at least 40 Regional Member Countries for projects and programs. ADF loans are interest-free with a 50 year repayment period, including a 10 year grace period. Lines of credit have a 20 year repayment period with a 5 year grace period. [6]

1.27 Despite global financial turbulence, the AfDB continues to be recognised as a strong financial institution with a recently reaffirmed AAA rating and a stable outlook.[7] The Greens acknowledge a number of international reviews have found the AfDB to exercise good governance policies and practices.

1.28 The Greens also acknowledge that the AfDB Group is recognised as an effective and efficient organisation, that its objectives concur with Australia's objectives of helping people overcome poverty and achieve sustainable development, and that it is a trusted partner of African governments.

1.29 The AfDB Group has approved loans and grants to a substantial number of projects that will bring benefits to African households and communities by providing improved access to electricity, and water and sanitation services and more health centres and schools.[8]

1.30 However, concerns raised by Professor_Michael M Cernea, a former World Bank adviser, should be considered by Australia as it determines its involvement with the AfDB. Professor Cernea has identified_internal displacement caused by conflicts or development projects as one of Africa’s major social and economic problems, raising challenges to national governments and to international donors._[9]

Criticism of the AfDB

Engaging civil society

1.31 A report by the University of Iowa Center for International Finance and Development notes that “the AfDB does not have an extensive history of engaging

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[5] African Development Bank Group. Disclosure and Access to Information, Background. http://www.afdb.org/en/disclosure-and-access-to-information/background/

[6] African Development Bank Group. About the ADF. http://www.afdb.org/en/about-us/african-development-fund-adf/about-the-adf/

[7] African Development Bank Group 2012 Annual Report: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Annual%20Report%202012.pdf

[8] ibid

[9] Cernea, M. *Safeguard Social Policies in Africa: A Continent-Wide Public Debate.* 31/3/2012. The Brookings Institute. http://www.brookings.edu/research/opinions/2012/03/31-africa-development-cernea. AfDB response at: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Response%20to%20Cernea%20Brookings%20on%20safeguard%20policies%20-%20DS%20reviewed.pdf

civil-society stakeholders". [10] This report notes that while this Bank has proposed a comprehensive policy for integrating individuals, groups, and NGOs into the various aspects of its operations, progress in this area is not occurring. Other regional banks are seen as stronger in this area than the AfDB.

Transparency

1.32 The Iowa Center has also identified that the AfDB is weak in disclosing information and transparency. It states "even if all of the information the AfDB has agreed to disclose was readily available to the public, it would not promote the effective inclusion of non-state stakeholders—such as non-governmental organizations and individuals—in its decision-making processes". [11]

Stopping damaging projects

1.33 There are limited opportunities for communities, individuals and organisations to challenge the Bank on damaging projects. AfDB's Independent Review Mechanism (IRM) appears to have only been used once. Harmful projects cannot be stopped even after the concerned people or their representatives have filed a request. The IRM does not have to respond to lawsuits because the AfDB's charter provides it with immunity from actions taken in municipal courts. The IRM in its current form cannot directly address problems with its own projects.[12]

Recommendation: The Greens support the recommendation of the Swiss Alliance of Development Organisations (Swissaid, Catholic Lenten Fund, Bread for all, Helvetas, Caritas and Interchurch Aid) calling on the AfDB to "implement its own good guidelines on transparency, the inclusion of the population and possibilities for the filing of complaints". [13]

Rights of indigenous peoples

1.34 The AfDB is currently the only multilateral development bank without a standalone safeguard policy on indigenous peoples. The Greens do acknowledge the AfDB is nearing completion of its new set of environmental and social safeguard policies which recognise the rights of indigenous peoples in some form.

1.35 However, the Forest People's Programme has noted that the question of indigenous peoples has proven controversial at the African Development Bank as "many members of the Board and staff are resistant to the notion that indigenous communities merit specific treatment and are imbued with certain rights".[14]

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[10] Carrasco, E et al. *Global Money, the Good Life and You*. The University of Iowa Center for International Finance and Development E-Book. Part 4-III: Regional Development Banks. 2009 (E-Book). http://blogs.law.uiowa.edu/ebook/uicifd-ebook/part-iv-iii-regional-development-banks

[11] ibid

[12] ibid

[13] AllianceSud. Op cit.

[14] Forest People's Programme, *African Development Bank set to introduce Indigenous Peoples standards for the first time*. 29/4/2013. http://www.forestpeoples.org/topics/african-development-bank-afdb/news/2013/04/african-development-bank-set-introduce-indigenous-

Recommendation: The Greens support the Civil Society Coalition on the African Development Bank and the Indigenous Peoples of Africa Coordinating Committee's call for a standalone safeguard policy on indigenous peoples, and for the Bank to establish a senior staff position to provide a liaison point for indigenous peoples, to convene an advisory board of indigenous peoples and to devote sufficient attention and resources to training its own staff. [15]

Conclusion

1.36 Considering Australian money allocated to the AfDB will be from our overseas aid budget, Australia needs to work with other members of the AfDB to ensure its projects and programs are accountable and work to empower and educate communities in order to achieve economic development that delivers equality, human rights and independence for the peoples of Africa.

1.37 If Australia uses its membership of AfDB to foster a traditional economic development model, driven by corporate interests such as mining, resource and major infrastructure development, it will be a setback for achieving economic justice, human rights and environmental protection across Africa.

1.38 On the ground experience of major development and infrastructure projects shows that too often they are the drivers of dispossession and poverty.

1.39 As a member of this regional bank Australia should put the interests of the African people before its own “national interests”.

Senator Lee Rhiannon
Greens spokesperson for International Aid & Development

[15] Ndobe, S et al. Indigenous Peoples of Africa Co-ordinating Committee. *Why a stand-alone Indigenous peoples Policy within the African Development Bank's Intergrated Safeguards System*. June 2012. http://www.coalitionafdb.org/wp-content/uploads/2012/09/Why-A-Standalone-IP-Policy-in-AfDBs-ISS.pdf

Appendix 1

Public submissions

1 Australia-Africa Mining Industry Group (AAMIG)

2 Treasury and AusAID

3 International Road Assessment Programme (iRAP)

4 General Electric (Australia and New Zealand)

5 Robin Davies, Development Policy Centre, Australian National University

Appendix 2

Answers from AusAID to written questions on notice

Senate Foreign Affairs, Defence and Trade Legislation Committee

Inquiry into the provisions of the African Development Bank Bill

Questions on notice

Question 1

a) **Australia would take on a contingent liability (callable capital) with the Bank as part of its initial contribution. Thus, in circumstances where the Bank was unable to meet its financial liabilities, Group shareholders, including Australia, would be called on to contribute additional capital in proportion to their shareholding to resolve the default. The Explanatory Memorandum stated that Australia's contingent liability would stand at approximately $1.4 billion (at current forecast exchange rates).[1] Treasury assessed this risk of the Bank defaulting on its debts and calling on capital as low, stating that such calls were 'unprecedented'.[2]**

- **Could you explain for the committee the basis for the low risk assessment?**

Membership of the AfDB would expose the Australian Government to a contingent liability, through callable capital, of SDR 926.2 million (approximately $1.4 billion at current forecast exchange rates). Consistent with our other multilateral development bank shareholdings, this risk would be reported in the annual *Budget Paper 1: Statement 8: Statement of Risks*.

In the event that the AfDB defaulted on its debts, Australia would be obliged to contribute to the payments of any defaulted amount, commensurate with the size of our shareholding (of around 1.4 per cent). Treasury considers the risk of this occurring to be low. The basis of this assessment is the Bank's AAA credit rating, prudent management and favourable independent assessments.

Those independent assessments (as cited in the joint Treasury/AusAID submission to the Senate and Joint Inquiries) have found the AfDB to be a sound institution. It regained its AAA credit rating in the early 2000s, and has the confidence of shareholders, who recently doubled its capital. It is also worth noting that no major development bank has ever called on its callable capital.

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1 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 36; Explanatory Memorandum, General outline and financial impact, p. 3 and *Submission 2*, p. 10.

2 *Submission* 2, p. 10; Explanatory Memorandum, General outline and financial impact, p. 3.

b) The AfDB experienced difficulties in the mid-1990s. For example the President of the Bank, Mr Donald Kaberuka, noted in 2010:

> **…the Bank is also the only MDB in the 1990s to have lost its AAA credit rating because of weak financials.** [3]

- **Could you elaborate on the difficulties experienced by the Bank in the 1990s and measures now in place to guard against similar problems?**

The key factor in the 1990s that led to the Group's loss of its AAA credit rating was its unsustainable lending policies and practices. The Group was extending non-concessional loans to uncreditworthy member countries in order to spur their economic growth. As these loans were often not repaid, this created a high amount of debt within the Group.

In 1995, the Bank elected Omar Kabbaj, a Moroccan financial official, as the new President. President Kabbaj moved swiftly to implement key fiscal and managerial reforms, most notable of which was limiting the number of countries accessing non-concessional lending, in order to turn around the Group's indebtedness. The Group's credit rating was restored to AAA in 2001.

The current President, Mr Donald Kaberuka, elected in 2005, has continued his predecessor's reform program. Key reforms enacted over recent years to ensure the AfDB remains an efficient and effective organisation include

- a policy of decentralisation, delegating authority to field offices to improve development effectiveness on the ground
- the development of a Human Resource Strategy which focused on acquiring and retaining quality staff and providing them with competitive benefits
- initiating an annual Development Effectiveness Review, to track the developmental impact of the AfDB
- strengthened fraud and anti-corruption procedures, including the creation of an Integrity and Anti-Corruption Division (IACD) in 2007 to combat fraud and corruption.

Donors have shown confidence in the Group, demonstrated by the most recent replenishment of the AfDF (AfDF-12), where members agreed to resources of US$9.6 billion making AfDF-12 the largest replenishment of the fund in its history.

3 Donald Kaberuka, President, African Development Bank, Closing remarks at the non-regional governors' forum on the sixth general capital increase of the African Development Bank, Cape Town, 24 February 2010, paragraph 5, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/GCI%20Closing%20Remarks_President%20Kaberuka.pdf

Question 2

a) Is there any indication of a likely seventh general capital increase in the foreseeable future?

There are no indications at this point. The timing and size of any capital increase depends on a number of factors, including the financing demands of the Bank's developing member countries, donors' ability and willingness to contribute further capital, and the state of the global economy.

b) The thirteenth fund replenishment round is currently underway—based on previous replenishments and early negotiations could you give the committee some idea of Australia's likely contribution; the basis on which Australia's share would be calculated; and how soon Australia would be required to make that payment?

The earliest Australia could join the Group is 2014-15, so will not be a member of the Group by the time AfDF-13 replenishment negotiations are finalised in September 2013. The 2013-14 Budget measure can be found here: http://budget.gov.au/2013-14/content/bp2/html/bp2_expense-12.htm

Australia will make an initial contribution to the AfDF of $160 million, prescribed by Group rules. Following membership, it is envisaged Australia will make a contribution to AfDF-13. The decision regarding the size of Australia's contribution to AfDF-13 will be made by the Government of the day and will be based on Australia's development priorities for Africa and ongoing assessments of the Group's ability as a development partner to carry out Australia's aims.

Question 3

If Australia ceased to be a member of the AfDF, the Fund:

> **…shall return to Australia its subscription or the principal repayments derived therefrom and held by the AfDF on the date on which Australia ceased to be a member of the AfDF, except to the extent that, in the opinion of the AfDF, will be needed by the AfDF to meet its financial commitments of the AfDF Agreement.**[4]

- **Could you elaborate on the possible penalties Australia could suffer by withdrawing its membership once it has joined?**

4 Australian Treaty National Interest Analysis [2012] ATNIA 23, paragraph 38.

The mechanism by which a member of the Group may terminate its membership is outlined in the relevant Agreements.

For the Bank, refer to Chapter VI of the *Agreement Establishing the African Development Bank*. Article 45 specifies the financial effects; in short, the Bank would repurchase the departing member's shares at book value on the date of termination. Note that the departing member would remain liable for its share of loans or guarantees prior to the termination date, but not after.

For the Fund, refer to Chapter VII of the *Agreement Establishing the African Development Fund*. Article 39 specifies the process for withdrawal. The Fund and the departing member would first seek to agree on a settlement of accounts – that is, an initial calculation and negotiation of the terms of the Fund repaying the departing member's subscription monies. This amount may be anywhere between zero and the member's cumulative subscriptions (or a net asset calculation). If a negotiated agreement could not be reached, Article 39 also specifies how the Fund would calculate the settlement of accounts in order to repay the subscription and principal repayments.

The Agreements do not provide for the imposition of penalties for withdrawal.

Question 4

The Development Policy Centre drew attention to additional resources that would be needed if Australia were to maintain active engagement with the Bank (see *Submission 5* p. 23.) Treasury and AusAID's submission mention the $9.3 million over four years to complete the legislative and treaty process but not the specific costs of continuing engagement.

- **Could you outline for the committee the anticipated annual costs, including extra staff if required, associated with being a member of the AfDB Group for both Treasury and AusAID?**

The 2012-13 Budget included a measure *Official development assistance — African Development Bank Group Membership*, which provided $9.3 million over four years (to 2015-16) to Treasury ($1.2 million) and AusAID ($8.1 million) to undertake the legislative, diplomatic and consultative tasks required for acquiring membership of the AfDB. As noted in the 2012-13 Budget, AusAID funding for this measure will be absorbed from within existing AusAID resources, and $0.8 million of Treasury resources will be offset from the provision for expanded aid funding held in the Contingency Reserve. It is expected that this funding will continue on an ongoing basis post 2015-16 to enable Australia to maintain active engagement with the bank after completing the legislative and treaty processes.

In addition to the resources specified in the 2012-13 Budget, staff from Treasury and AusAID are also working on the joining of the Group as part of existing policy work. Australia's diplomatic network, including our embassies in Africa, will also be expected to contribute to engagement with the AfDB as part of their normal duties.

Question 5

AusAID's Multilateral Assessment found that although the AfDB was a signatory to the International Aid Transparency Initiative, it was not yet fully compliant.[5]

- **Has this status changed?**

At the time of the release of the AMA, the Group had not yet provided all the necessary information on its activities in member countries.

On 1 July 2013, the Group provided comprehensive data on its aid transparency practices to the IATI detailing both its public and private sector activities and precise geocoded information. The Group has now become the first multilateral development bank to provide this level of detail in IATI data.

Question 6

Mr Shaun Anthony, Treasury, explained that the extent to which Australia could exert influence on Bank's board:

> **…would all be dependent upon which constituency we join and how large the shareholding is, as well as our activities at the bank and our contributions to the concessional arm.[6]**

- **Are you able to elaborate on this statement including the constituency Australia is likely to join?**

Influence within the Group can be exercised in several ways:

1. through the traditional avenue of the size of a shareholding – the more shares a country has, the more share of total votes the country commands within the Board of Governors, the Group's highest decision-making body. On the Board of Governors, the Treasurer will engage and vote on the most important matters (strategy, capital structure, senior appointments).
2. through the Board of Directors, which has 20 directorships that represent the Bank's (currently) 78 member countries through constituencies, and guides the Bank's policies, projects, and programs. Relevant factors in negotiating to join a particular constituency are shareholding sizes, access to executive positions and consistent development priorities.
3. through the size of a country's contributions to the AfDF, the Group's concessional lending arm. The UK, for example, has a relatively small shareholding in the AfDB but contributes a comparatively large amount to the AfDF and is in turn able to have an influential voice in AfDF Executive Council meetings;

5 AusAID, *Australian Multilateral Assessment*, March 2012, p. 59.

6 Joint Standing Committee on Treaties, *Committee Hansard*, 26 November 2012, p. 5.

4. through bilateral development activities, such as cofinanced projects alongside the AfDB;
5. through our development policy expertise. For example, Australia is considered an expert in areas such as dry land farming, gender equality and disability; and
6. through a country’s diplomatic network. For example, Australia’s network builds multilateral credentials generally; leverages from our United Nations Security Council membership (where 70 per cent of the Council's agenda is Africa); and generally demonstrates Australia is a credible partner and key player in Africa as trade, development, diplomatic and people-to-people links grow.

Question 7

Can Australia achieve our African aid goals without the bank? Would non-membership mean our goals are harder to achieve? How does joining the bank help achieve our goals, rather than continuing on the current path?

As a relatively small donor with a limited number of staff located in five of the 49 Sub-Saharan African countries, Australia needs to work with and through trusted partners to deliver programs and to engage at a policy level. Current partners include other bilateral donors such as the UK and Germany, non-government organisations and multilateral organisations. These partners have been selected to suit the specific context for program delivery but none have the unique combination of geographic reach, technical expertise and African identity that is offered by the AfDB.

In 2011, the Independent Review of Aid Effectiveness recommended that Australia join the Group as it would represent value for money, in terms of how best to scale up aid to Africa, and be a high–level indication of Australia’s commitment to development in Africa. Improving aid efficiency broadly involves Australia achieving the best possible quantity and quality of inputs for the best possible price and ensuring that these inputs produce the best quantity and quality of aid outputs. The AfDB has been shown to be lean and efficient, with the *Quality of Official Development Assistance* study by the Center for Global Development, assessing value for money in the context of ‘maximising efficiency’ (or ‘bang for the development buck’), ranking the AfDB second out of 31 bilateral and multilateral donors.

Membership of the AfDB will effectively complement Australia’s current engagement in Africa in two ways. It will firstly enable Australia to fund the work of a well-established and effective partner – through contributions to the African Development Fund - to deliver results in areas that complement our own priorities. Australia aims to achieve positive results in Africa in the areas of food security, water and sanitation, maternal and child health, mining for development and human resource development. The AfDB’s operational priorities of infrastructure, regional integration, private sector development, governance and accountability and skills and technology (as outlined in the AfDB's Long Term Strategy 2013-2022) complement Australian priorities.

Membership of the Bank will also provide Australia with a credible platform for coordinated policy engagement on key issues with partner governments and other African stakeholders. The AfDB is recognised for its strong African identity, its understanding of regional needs and its legitimacy among African governments. AfDB is a powerful voice on the African continent and provides a unique platform for discussion of solutions to Africa's issues.

Question 8

The submission states that the Treasurer would be our representative. Wouldn't the Foreign Minister or parliamentary secretary for aid be more appropriate? In their submission the ANU suggests the Foreign Minister should be governor and the DG of AusAID as the alternate which is apparently in line with UK practice.

The main objective of the AfDB is to promote sustainable economic development and social progress in regional member countries by mobilising and allocating financial resources. Given that economic and financial management, as well as legislative responsibility under the various development bank Acts, lies within the Treasury portfolio, it is appropriate for the Treasurer to be Australia's Governor to the AfDB. This practice is consistent with the Treasurer being Australia's Governor to other multilateral development banks (such as the ADB, EBRD and World Bank).

The Treasurer will work closely with the Minister for Foreign Affairs and the Minister for International Development in progressing AfDB matters.

Question 9

On page 10 to 11 of his submission, Mr Robin Davies, the Development Policy Centre ANU, suggests some deficiencies in the bank's operation. Could you comment?

Mr Davies' submission notes that there has been slow progress between the 2011 and 2012 Group Annual Development Effectiveness Reviews for results in human resource management, decentralisation and business processes and practices.

Human resource management

The AfDB's region of focus comprises a large number of fragile and conflict affected countries (35 per cent of its member countries are classified as fragile or conflict affected), so recruiting and retaining people to work in such areas can be more challenging than for other MDBs such as the World Bank or Asian Development Bank.

Earlier this year the Group released a five year HR strategy, the People Strategy 2013-2017, to transform the organisation's workforce practices and to attract and retain the best staff to deliver the Group's Long-Term Strategy 2013-2022. Progress on the People Strategy will be tracked quarterly by senior management and reviewed at the half way mark to adjust if necessary.

The People Strategy focuses on transforming the leadership culture, overhauling performance management, better linking performance and reward, strengthening staff engagement and increasing flexibility in employment policies.

Decentralisation

As Mr Davies' submission notes, the Group is in the process of enacting a policy of decentralisation, delegating authority to field offices to improve development effectiveness on the ground. The process for decentralisation has been deliberate and gradual. The Group now has 34 field offices (up from 4 field offices in 2002), with around 42 per cent of projects now being task-managed at the field office level.

The Group's Roadmap on Decentralisation was approved in April 2011, which will guide the Group's decentralisation strategy until 2015, including the delegation of authority.

The Group must have the necessary offices, safeguards, systems and processes in place before delegating authority, and this can take some time, particularly in fragile and conflict-affected regions, where the Group has a major focus.

Business processes and practices

In 2009, the Group appointed a Chief Operating Officer to increase organisational performance and efficiency and ensure alignment of the corporate structure with the AfDB development strategy. This is not a short term process.

In its 2013 Annual Development Effectiveness Review, the Group recognised that there is still room for improvement. However, increased decentralisation and devolvement of authority should reduce red tape and increase start-up efficiencies. Membership will allow Australia to advocate for further change.

Several recent international reviews have commended the Group's reform process. For example

- the 2012 Australian Multilateral Assessment (AMA) stated that the AfDB was "an effective organisation providing strong tangible results on the ground", including in areas that are a focus for Australian aid in Africa
- the UK's Department for International Development in its 2011 Multilateral Aid Review noted positively the AfDB's ambitious reform agenda (the Medium Term Strategy 2008-2012)

- a December 2012 Multilateral Organisation Performance Assessment Network (MOPAN[7]) assessment rated AfDB highly with regard to its clear mandate and commitment to transparency, its commitment to reforming its human resource management, the independence of its evaluations and its updated reporting practices (such as its use of Annual Development Effectiveness Reviews).

Question 10

Is AusAID concerned with the alleged decentralisation of the bank (see Mr Robin Davies, the Development Policy Centre ANU submission page 11)?

AusAID believes the Bank's decentralisation policy is consistent with a drive to greater development effectiveness. See response to Question 9, above.

Question 11

Mr Robin Davies, the Development Policy Centre ANU suggests there would be substantial resource implications for AusAID at headquarters and minor implications for Treasury. Can you comment? Are our relevant African posts suitable resourced? (This questions is more or less covered in existing question four.)

Refer to Question 4.

[7] MOPAN is a network of 17 donor countries with a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund