

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

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

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

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

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

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:

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

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

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

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

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:

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%202.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

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

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.aisaid.gov.au/countries/ame/Documents/aisaid-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

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.

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- 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.

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 the 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.

