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.

---

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