

## 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.<sup>1</sup>

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.<sup>2</sup> 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'.<sup>3</sup>

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.<sup>4</sup>

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'.<sup>5</sup>

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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-Documents/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.<sup>6</sup> 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.<sup>7</sup>

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.<sup>8</sup> 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.<sup>9</sup>

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.<sup>10</sup>

### **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.<sup>11</sup>

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.<sup>12</sup>

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.<sup>13</sup>

### **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'.<sup>14</sup> 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.<sup>15</sup> 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](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.<sup>16</sup>

### ***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.<sup>17</sup>
- 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.<sup>18</sup>
- 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'.<sup>19</sup>

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'.<sup>20</sup> In 2011, as part of the AfDB Group's effort to sharpen its focus on results, the Bank

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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.<sup>21</sup> 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'.<sup>22</sup> The review indicated that the Bank would work towards publishing information on all its operations in accordance with the IATI's standard.<sup>23</sup>

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'.<sup>24</sup>

### ***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.<sup>25</sup> 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'.<sup>26</sup> Its role is both reactive and proactive.<sup>27</sup>

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.<sup>28</sup>

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'.<sup>29</sup> 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.<sup>30</sup>

The Treasury and AusAID noted that the Group has 'developed robust fraud and anti-corruption policies'.<sup>31</sup>

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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](http://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.<sup>32</sup>

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.<sup>33</sup> 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'.<sup>34</sup> The UK's multilateral review rated the ADF, highly for its organisational effectiveness and value for money.<sup>35</sup>

### *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'.<sup>36</sup> 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'.<sup>37</sup>

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.<sup>38</sup> 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.<sup>39</sup>

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'.<sup>40</sup> 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...'<sup>41</sup>

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'.<sup>42</sup> 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.<sup>43</sup>

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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.<sup>44</sup>

### ***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.<sup>45</sup> Indeed, MOPAN noted that the Bank's 'good standing as a financial institution' was one of its strong areas.<sup>46</sup> The survey found that the Bank was noted for 'the transparency of its resource allocation decisions'.<sup>47</sup>

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 (FIIs) aimed at enforcing a 'unified and coordinated approach to fight corruption and prevent it from undermining the effectiveness of their work'.<sup>48</sup>

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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.<sup>49</sup> 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.<sup>50</sup>

### *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'.<sup>51</sup> 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.<sup>52</sup>

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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.<sup>53</sup> 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.<sup>54</sup> 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.<sup>55</sup>

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.<sup>56</sup> 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...'<sup>57</sup>

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.<sup>58</sup> 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](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.<sup>59</sup>

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.<sup>60</sup>

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'.<sup>61</sup>

### ***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'.<sup>62</sup> 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.<sup>63</sup>

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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;<sup>64</sup> and
- operational-regional meetings which would provide Australia with the opportunity to converse with Bank staff and discuss country-level and regional level policies.<sup>65</sup>

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.<sup>66</sup>

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.<sup>67</sup>

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.<sup>68</sup>

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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.<sup>69</sup>

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).<sup>70</sup>

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'.<sup>71</sup>

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**



