Australia's engagement with the African Development Bank

A submission to the Senate Foreign Affairs, Defence and Trade Legislation Committee's inquiry into the provisions of the African Development Bank Bill 2013

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1. Introduction

The Development Policy Centre is a think tank at The Australian National University's Crawford School of Public Policy. It undertakes research and promotes discussion into aid effectiveness, PNG and the Pacific and global development policy. Further detail on the Centre's activities can be found in our 2012 annual report, and on our website (http://devpolicy.anu.edu.au).

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In line with the Senate's interests, as conveyed by the committee secretariat, we place considerable emphasis below on the financial and human resource aspects of the proposed Australian engagement with the African Development Bank (AfDB) Group, and the effectiveness of the Bank's governance and management arrangements. We have consciously avoided the inclusion of information provided in other documents available to the committee, most notably the consultation paper prepared by AusAID in

2012.[1] However, we have included some broader observations on the benefits and possible modalities of engagement, and we have drawn attention to significant developments which post-date the above consultation paper.

The structure of this submission is as follows. It is in seven sections, including this introduction. In section 2 we seek to place the AfDB's operations in the context of its place among the multilateral development banks (MDBs) and among sources of financing for development in Africa. In section 3 we make some observations about the AfDB's overall performance, drawing particularly upon the findings of a credible internal review process (the Annual Development Effectiveness Review), an external assessment process (MOPAN) and a collaborative peer assessment process (COMPAS). In section 4 we summarise and briefly discuss the implications of three recent and important developments, all of which post-dated the preparation of the 2012 consultation paper. In section 5, we give some reasons for joining the AfDB, additional to those put forward elsewhere, and address two possible objections. In section 6, we raise three questions about the costs associated with the proposal to join the AfDB. In section 7, the final section, we discuss what obligations membership of the AfDB would entail in terms of engagement in the governance of the institution.

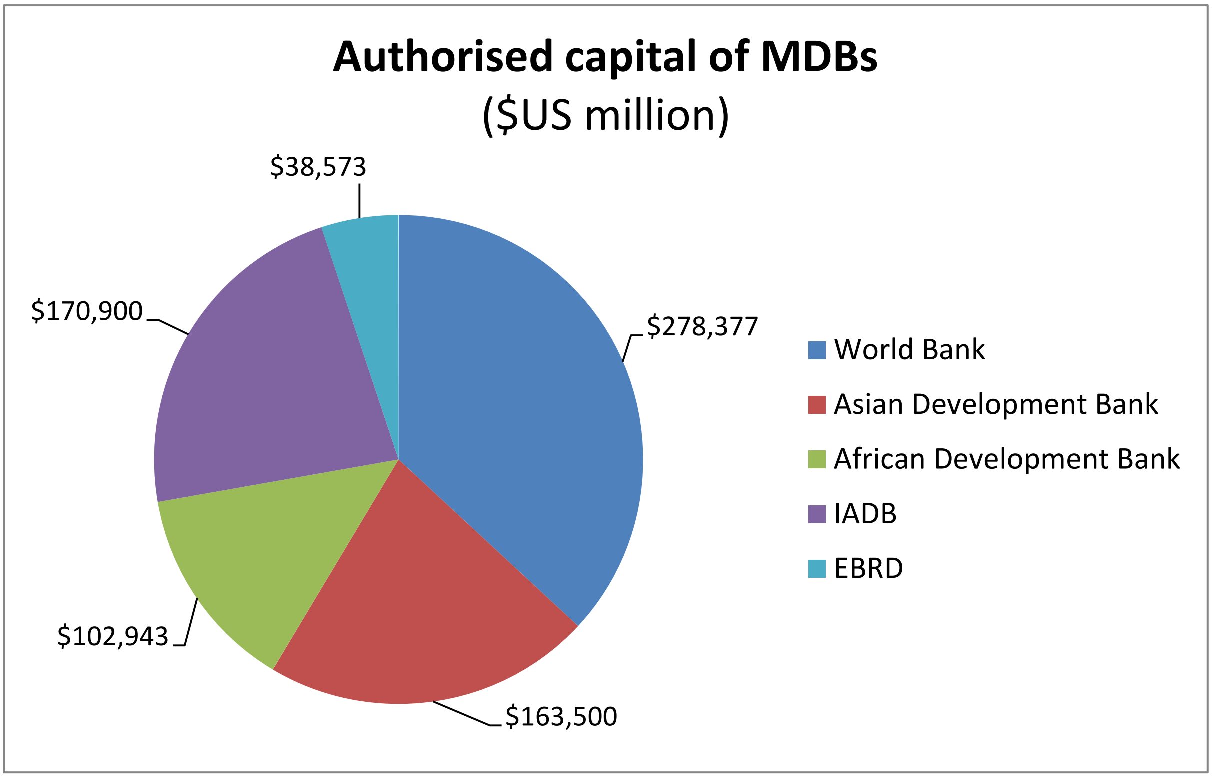
2. The AfDB in context

The AfDB used to be a relatively small player among development financing institutions. Its lending capacity was similar to the current capacity of the European Bank for Reconstruction and Development (EBRD), which has a substantially smaller and better-off pool of client countries. The EBRD serves about 30 countries, none of which is poor enough to require assistance on concessional terms; the AfDB serves 54 countries, 40[2] of which qualify for concessional financing from the bank's concessional financing arm, the African Development Fund (AfDF).

[1] *Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund*, consultation paper, Australian Agency for International Development, July 2012.
[2] See Annex IV of the AfDF-12 Deputies' Report, *Delivering Results and Sustaining Growth*, September 2010.

However, the tripling of the AfDB's authorised capital in 2010, to over $US100 billion, greatly enhanced not only its lending capacity but also its heft in the multilateral system and in policy dialogue, both within Africa and globally. As figure 1 shows, the AfDB accounts for just under 14 per cent of the total authorised capital of the five major MDBs[3]. Its financing capacity is now in the same ball park as, if still below, that of the Asian Development Bank (AsDB) and the Inter-American Development Bank (IADB).

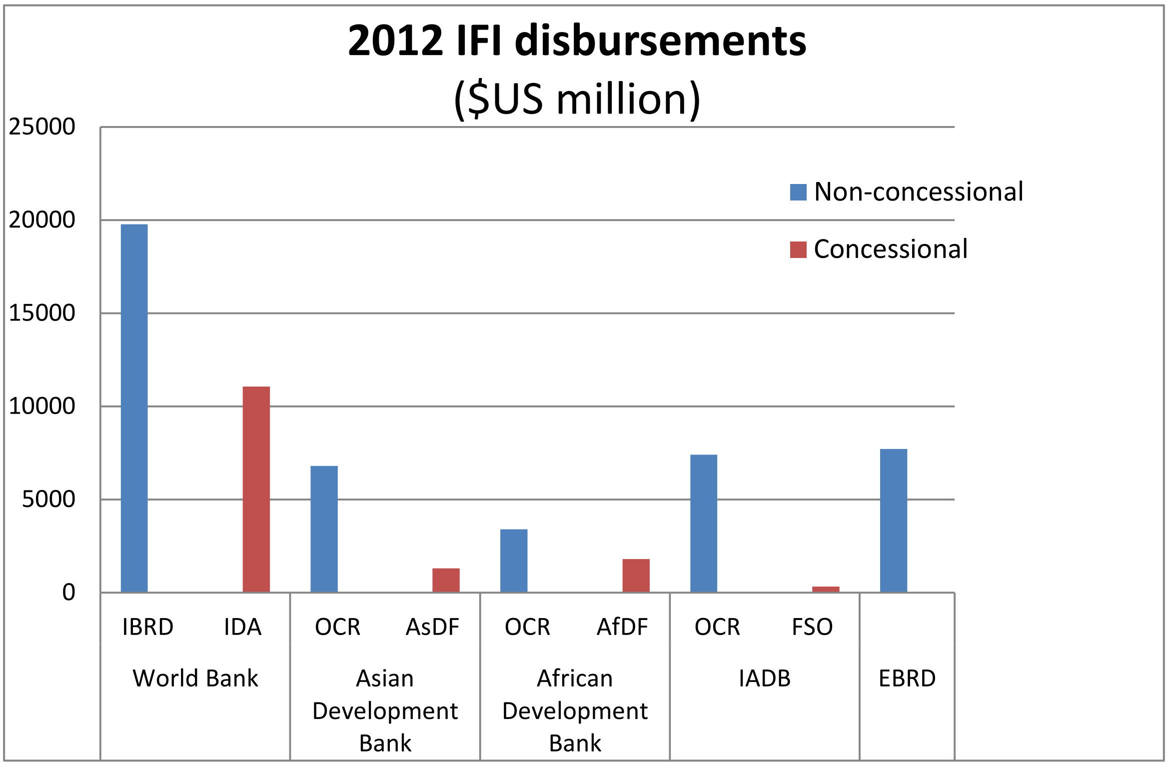
Figure 1: Authorised capital



Measured by funds disbursed in 2012, the African Development Bank was the smallest provider of non-concessional financing among the MDBs. As a provider of concessional financing, it ranked second among the four MDBs that have concessional financing arms. 2012 disbursements by each of the MDBs are shown in figure 2.

[3] We leave out of account small lending institutions such as the International Fund for Agricultural Development and the Caribbean Development Bank. We also do not include the Islamic Development Bank which, though its authorised capital was tripled to $US150 billion in May 2013 and is comparable with that of the Asian Development Bank, has a narrow ownership base.

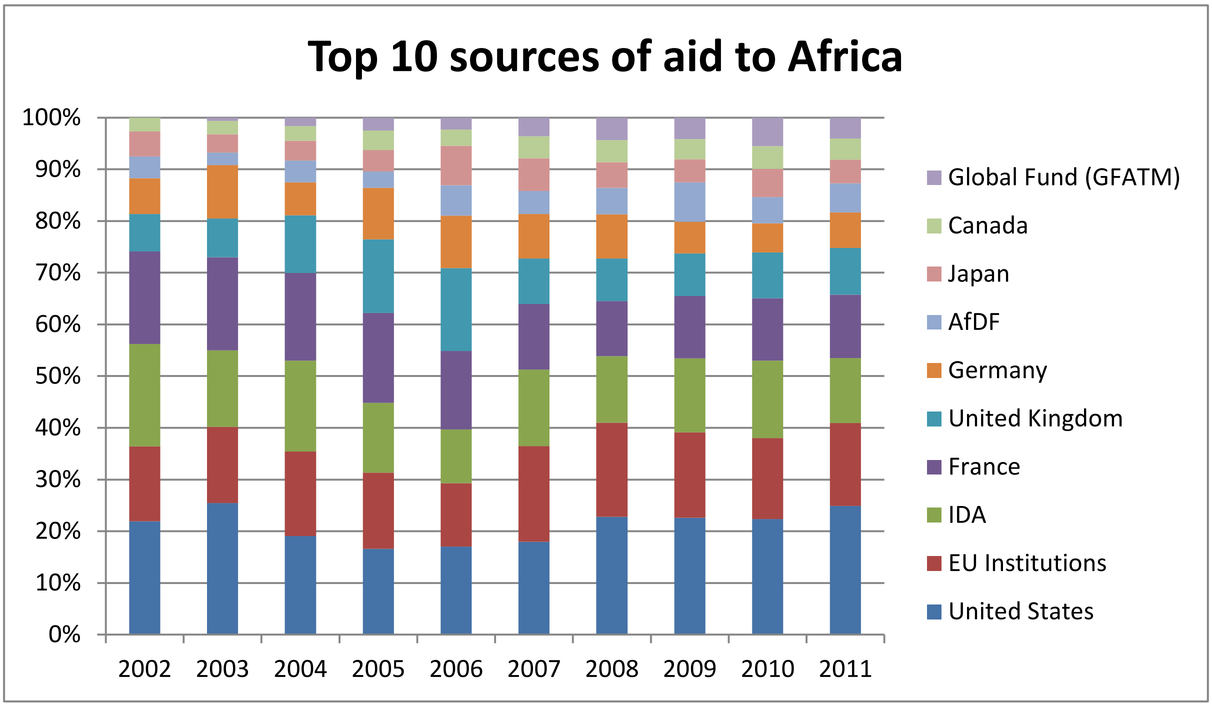
Figure 2: IFI disbursements[4]



Measured by its significance as a source of aid to Africa, the AfDF ranks in seventh place, after four bilateral donors (the US, France, the UK and Germany) and two multilateral institutions (the International Development Association (IDA), which is the concessional financing arm of the World Bank Group, and the European Commission). Its share has fluctuated over the course of the last decade, as figure 3 shows, but displays a clear upward trend.

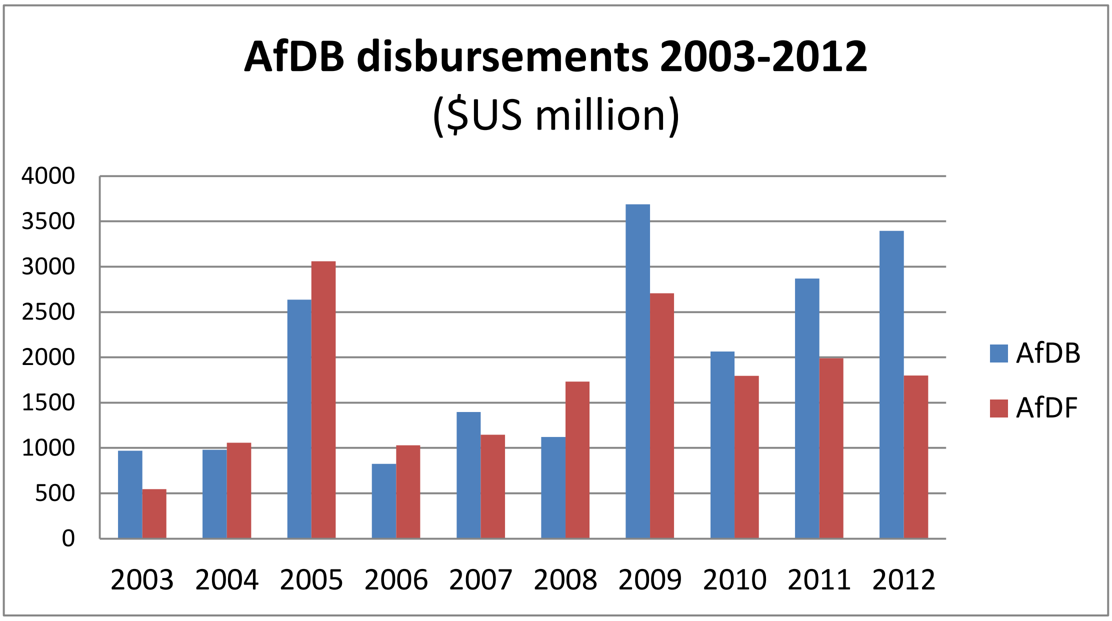
[4] FSO is the IADB's Fund for Special Operations. OCR is Ordinary Capital Resources—that is, resources raised through the issuance of bonds backed by subscribed capital.

Figure 3: Sources of aid to Africa



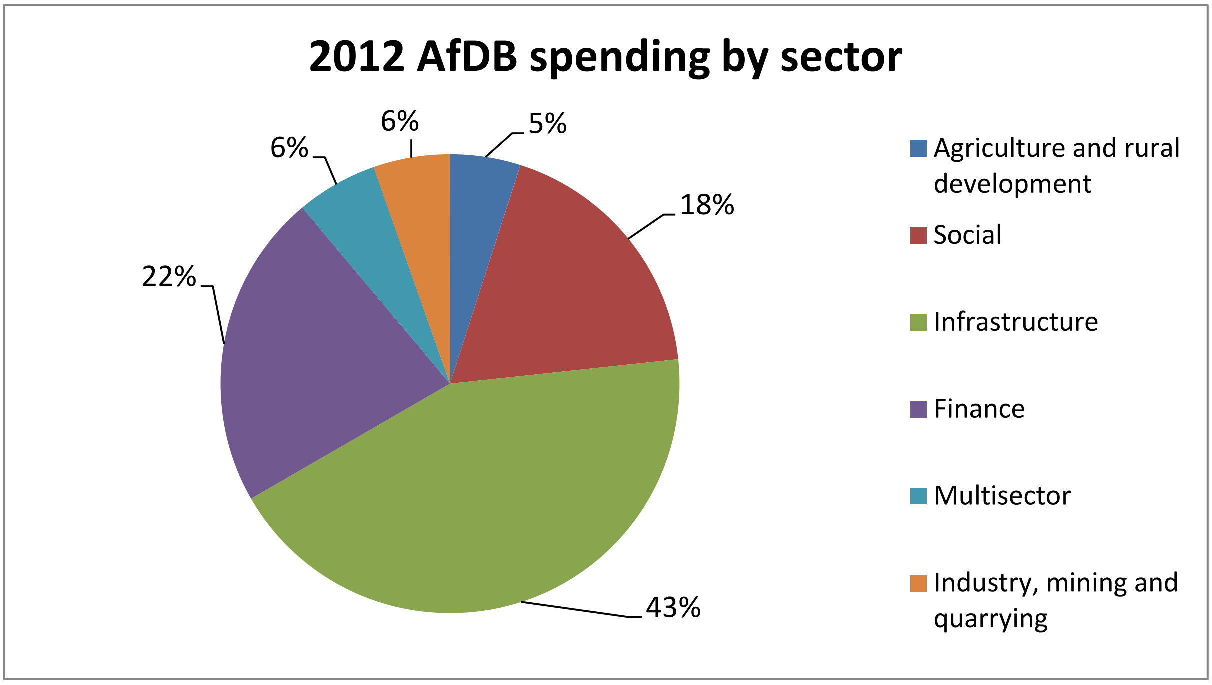
As figure 4 shows, total AfDB disbursements, while quite variable from year to year, have grown very substantially from about $US1.5 billion a decade ago to about $US5.2 billion in 2012.

Figure 4: Disbursements



Finally, as can be seen in figure 5, the AfDB's spending is, like that of the AsDB, heavily concentrated in the infrastructure sector. The proportion of its spending devoted to infrastructure has fluctuated, and has gone as high as 70 per cent in recent years[5], but currently stands at a little over 40 per cent. For comparison, the World Bank spends around 32 per cent of its loans and grants to Africa in the infrastructure sector, including investments in transport, communications, energy and water and sanitation.[6] Other areas accorded priority in the AfDB's recently-expired medium-term strategy (for the period 2008-2012) were regional integration, governance and higher education and skills development.[7]

Figure 5: Spending by sector



[5] African Development Bank Annual Report, 2010.
[6] OECD, Development Aid at a Glance – Statistics by Region: Africa, 2013 edition.
[7] These priorities, together with infrastructure, are not mutually exclusive, nor easily discernible in the broad sector classifications used in figure 5.

3. Performance

As indicated in section 1, we will not repeat what has been said in other documents available to the committee[8] on the subject of the AfDB's impact and its operational and organisational effectiveness. The consensus conclusion of many recent bilateral and multilateral assessments of AfDB performance, including those of the UK and Australian governments (2011 and 2012, respectively) and that of the Multilateral Organisation Performance Assessment Network (MOPAN – 2012), is that the AfDB has undergone a very substantial transformation under the leadership of President Donald Kaberuka, a former minister of finance and economic planning in Rwanda, since he took office in 2005.[9] His predecessor, Omar Kabbaj of Morocco, had also made good progress on a management reform agenda over the previous decade.

3.1. The good news

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

The generally positive view of the AfDB's trajectory since 2005 is strikingly represented in figure 6, which compares assessments of IDA, the AfDF and the Asian Development Fund (AsDF) undertaken as part of the "Quality of Official Development Assistance" (QuODA) rankings process conducted jointly by the Brookings Institution and the

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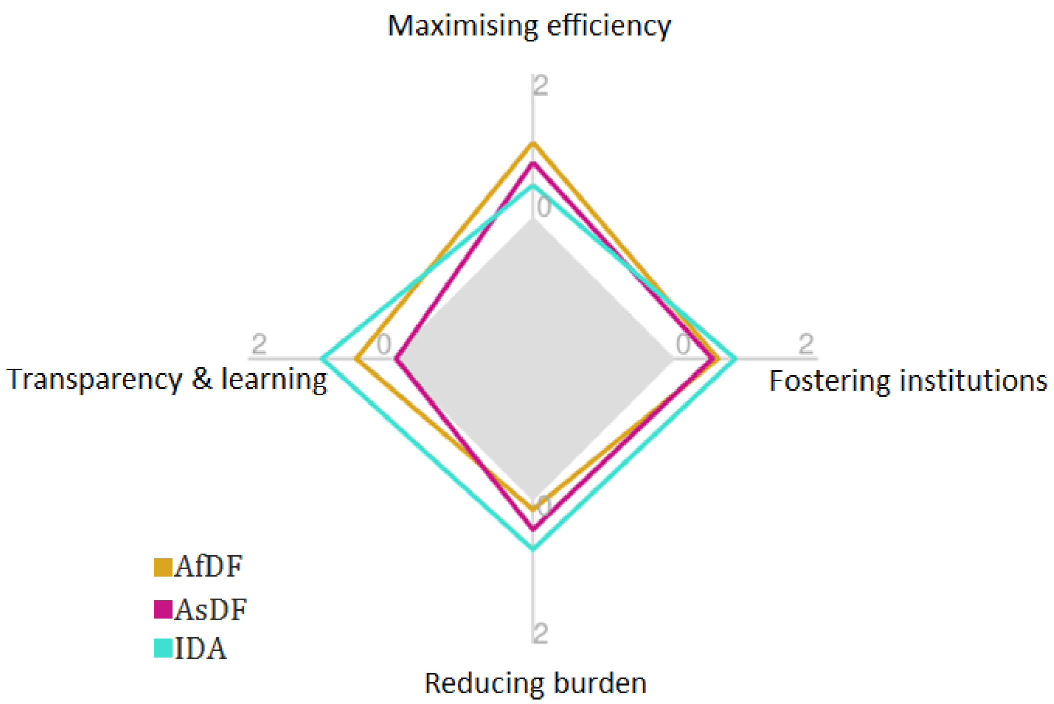
[8] In addition to the 2012 AusAID consultation paper, such documents include the assessment of the AfDB conducted as part of the Australian Multilateral Assessment process in 2012, a similar UK assessment, conducted as part of the UK's Multilateral Aid Review in 2011, and the most recent assessment undertaken by the OECD-hosted Multilateral Organisation Performance Assessment Network. Note that the Australian and UK assessments relate in theory only to the AfDF. However, the AfDF is a funding window rather than a separate agency and cannot in practice be assessed independently of the AfDB Group as a whole.

[9] He was re-elected, for another five-year term, in 2010.

Centre for Global Development. The AfDF is ranked above at least one of the other two funds in three of the four dimensions of assessment, and in the fourth is still ranked above the mean (indicated by the boundary of the grey rectangle) of all donor agencies assessed, which included a great many bilateral and multilateral donor agencies.[10]

Figure 6: QuODA assessment



3.2. The bad news

There is little question that the AfDB's performance has improved dramatically since 2005. This was recognised in the generous increase of the AfDB's authorised capital, and in generous contributions to the twelfth replenishment of the AfDF, both in 2010. However, there is some risk that the generally positive aura around the institution will

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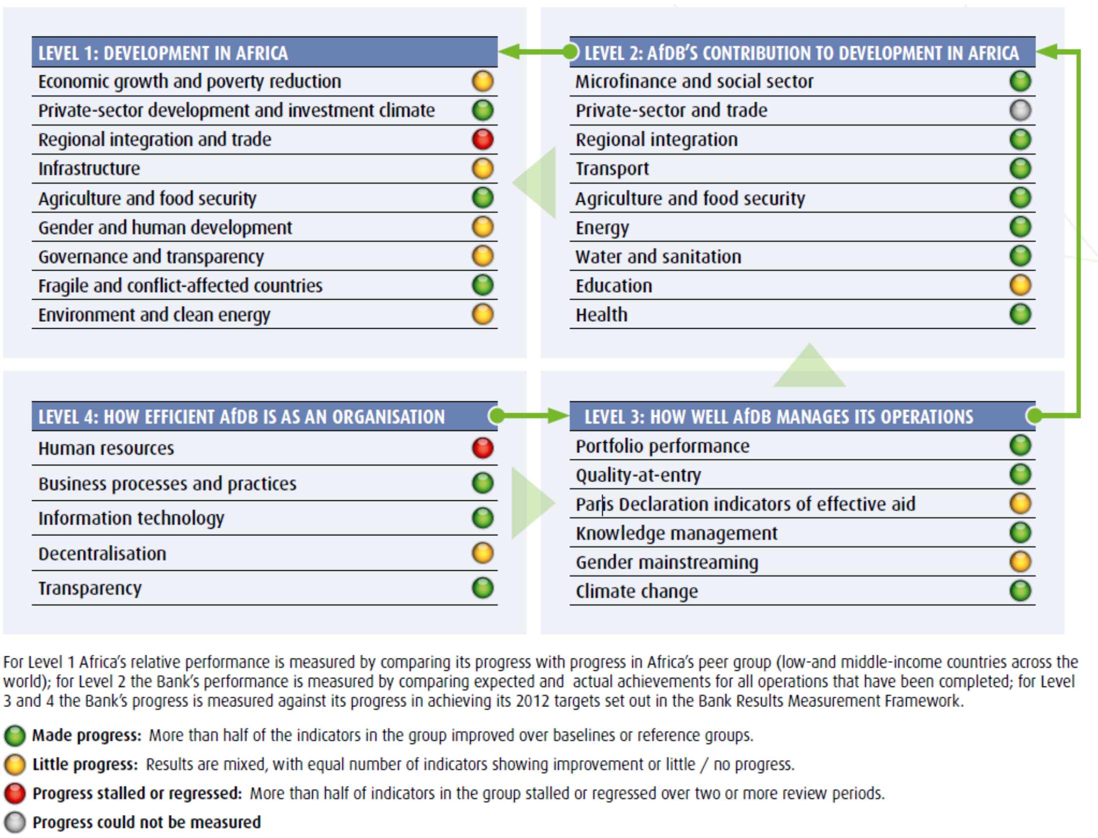
[10] A more detailed and interactive version of this chart, which allows comparisons with many other organisations, is at http://www.cgdev.org/page/quality-oda-quoda?p=i&d=27,28,25.

deflect attention from some important areas of continuing weakness. Donors who have recently made very large investments in the institution, or have signalled a clear intention to join it, clearly do not have strong incentives to make critical observations about its performance—at least not in public.

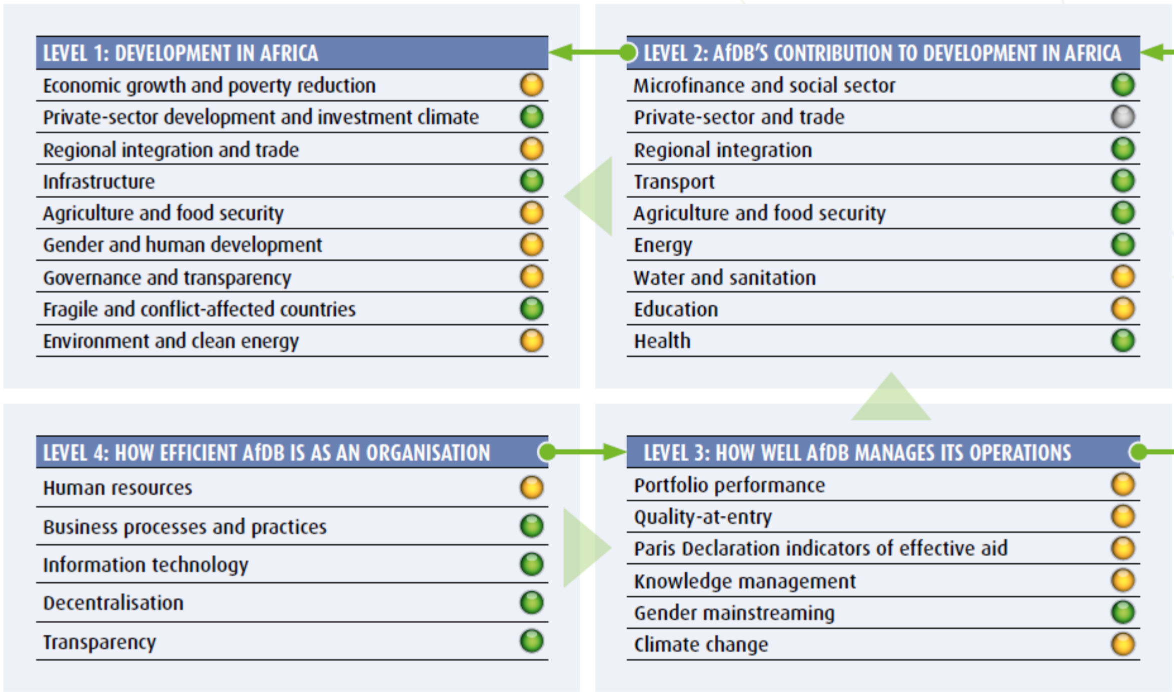
There are several areas in which the AfDB's performance is acknowledged—including by the Bank itself in its recently-instituted Annual Development Effectiveness Review process—to be in need of substantial improvement. Box 1 shows the Bank's own performance scorecard for both of the last two years. This uses the four tiers of assessment that have become standard in MDB development effectiveness review exercises: (i) development progress of clients, (ii) contribution of the bank to that progress, (iii) operational effectiveness and (iv) organisational effectiveness.

Box 1: ADER scorecards, 2011 and 2012

2011



2012



For Level 1 Africa's relative performance is measured by comparing its progress with progress in Africa's peer group (low-and middle-income countries around the world); for Level 2 the Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed; for Levels 3 and 4 the Bank's progress is measured against its progress in achieving its 2012 targets set out in the Bank's Results Measurement Framework.

Good progress: More than half of the indicators in the group improved over baselines or reference groups.
Moderate progress: Results are mixed, with equal numbers of indicators showing improvement or little / no progress.
Progress stalled or regressed: More than half of indicators in the group stalled or regressed.
Progress could not be measured.

On the 2011 scorecard, human resource management shows red, and decentralisation amber. "Business processes and practices" get a green light in this assessment[11], but are criticised in the 2012 MOPAN survey, which found that the Bank's "heavy bureaucratic measures constitute a major hindrance to the effectiveness and efficiency of its operations". (p. 19) On the 2012 scorecard, human resource management progresses from red to amber but several indicators of operational effectiveness regress from green to amber.

[11] Though in the more fine-grained picture provided in Table 3 of the Bank's Annual Development Effectiveness Review in 2012 and 2013 (p. 34 and p. 40, respectively), two more specific indicators show as red: the "disbursement ratio" of the active portfolio, and the time elapsed between project approval and project implementation. The disbursement ratio is the amount of funding disbursed during a fiscal year as a percentage of the amount available for disbursement at the beginning of that year. The target ratio for the AfDB is 32 per cent. Achieving this would entail that funds are disbursed on average over a four-year period. The actual ratio was 18 per cent in 2011 and 22 per cent in 2012.

A careful reading of multiple recent assessments suggests there are still substantial problems in the three areas above: human resources management, decentralisation and business processes and practices. The Bank suffers from high staff turnover and high vacancy rates[12], 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. For example, a reading of the most recent (2011) COMPAS Report[13] shows that on a number of implementation-related indicators, the AfDB is lagging other institutions. In particular, 22 per cent of AfDB projects in execution at the end of 2011 were showing unsatisfactory implementation progress, with development objectives not likely to be achieved, whereas the mean value of this indicator for the seven institutions assessed was 13.8 per cent (p.35). This implementation problem is presumably related to the other two problems, with human resources management and decentralisation.

The importance of the problems above should not be overstated. The Bank is clearly a far more capable institution than it was in 2005, when there were serious questions about its continued existence. However, nor should these problems be ignored or downplayed, as they largely were in the 2012 Australian Multilateral Assessment report on the AfDB. They need to be addressed, and Australia can be part of the process of addressing them through its role in overseeing the work of the institution if it proceeds to join. The problem with decentralisation, it should be noted, is shared with the AsDB, where Australia has long advocated an increased and empowered field presence in the AsDB's main borrowing countries and regions.

A final point on the problems just outlined is that the AfDB's "temporary" relocation to Tunis, following the civil war in Côte d'Ivoire in 2003, has clearly been a factor in the level of staff turnover and in the high vacancy rates—which brings us to recent developments.

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[12] There are also more mundane management problems that do not appear at all unique to the AfDB.
[13] COMPAS is the Multilateral Development Banks' Common Performance Assessment System.

4. Recent developments

Since the finalisation of AusAID's consultation paper in July 2012, there have been three significant developments with respect to the management or assessment of the AfDB.

4.1. Return to Abidjan

The first such development was that in May 2013 the bank's governors agreed it should finally return to its permanent location in Abidjan, Côte d'Ivoire.[14] Some staff will be transferred this year and the move is intended to be completed in 2014. Given that some 70 per of the Bank's present staffing complement have reportedly been hired since its relocation to Tunis, the move will undoubtedly be disruptive and could in the short-term aggravate the already substantial human resource management problems outlined above. However, in the medium- to long-term, the return to Abidjan should provide much greater certainty for prospective long-term employees of the Bank, and also a somewhat more hospitable environment for staff from sub-Saharan Africa, who have reported experiencing discrimination in Tunisia.

4.2. Long-term strategy, 2013-22

The second development was that in early 2013 the bank finalised consultations on, and adopted, its long-term strategy for the period 2013-22, replacing its medium-term strategy for the period 2008-2012.[15] The long-term strategy does not entail a major change of direction for the bank but it does seek to organise the bank's work around two fundamental objectives, namely inclusive growth and green growth. These terms are becoming ubiquitous and, if taken literally, might be thought to involve a very substantial change of direction, for example toward investment in social protection programs and renewable energy. However, the sectoral priorities nominated are much the same as those found in the previous strategy, namely infrastructure, regional integration, governance, private sector development and skills and technology. It seems

[14] See http://www.afdb.org/en/news-and-events/article/first-steps-of-banks-return-to-abidjan-11555/.
[15] *At the Centre of Africa's Transformation: Strategy for 2013-22*, African Development Bank Group, 2013.

safe to assume the bank will continue to be largely an infrastructure bank, like the AsDB (which also lays claim to inclusive, green growth as an objective.[16])

4.3. 2012 MOPAN review

The third development is the release in December 2012 of the most recent MOPAN review of the AfDB, to which we have already referred in section 3. The previous such review was released in 2009. According to the 2012 review, in both 2009 and 2012 "the Bank's performance was largely perceived as adequate overall by survey respondents". In addition, "there was a positive trend in stakeholders' perceptions of the Bank's practices in two areas: management of human resources and adjustment of procedures to take into account local conditions and capacities, both of which were rated inadequate in 2009 and adequate in 2012." (p. xi) In short, the review found no dramatic further improvements since 2009, but pointed to some positive trends.

5. Why join?

We do not seek to make a comprehensive case here for Australian membership of the AfDB. That case has been made in the 2012 consultation paper and by the government in introducing the bill to the parliament. It was also made by one of the Development Policy Centre's Research Associates, Dr Joel Negin of the University of Sydney, in a study he co-authored at the request of the panel conducting the Independent Review of Aid Effectiveness in 2011.[17] We support the arguments which have been put, and regret that there does not appear to be bipartisan support for the proposal—at least judging by comments made by the leader of the opposition in May 2012. Here we make five observations which have not, to our knowledge, been made up to this point—at least not in quite the following ways.

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[16] As, for example, in a speech to the Foreign Correspondents' Club in Hong Kong by former President Kuroda in late 2012.

[17] Joel Negin and Glenn Denning , *Study of Australia's approach to aid in Africa*, commissioned as part of the Independent Review of Aid Effectiveness, February 2011.

5.1. Australia as exception

First, of the 18 biggest OECD donors in 2012, ranging in size from the US ($US30.46 billion) to Austria ($US1.11 billion), and accounting for 98 per cent of ODA, only Australia (the eighth-largest donor, at $US5.44 billion) is absent from the ranks of the non-regional members of the bank. In our region, fellow OECD countries Japan and Korea are members, as are China and India. Within the G20, in addition to the OECD and regional countries just mentioned, Brazil, Turkey, Saudi Arabia and Argentina are members; only Russia, Mexico and Indonesia are not. In short, Australia is quite conspicuous by its absence from the AfDB membership.

5.2. Geographical overlap

Second, there is a reasonable level of geographical overlap between the top 10 recipients of Australian aid to Africa, and the top 10 recipients of AfDF disbursements, as shown in table 1 below. Four countries appear in both lists. Those on the left that do not appear on the right are primarily recipients of humanitarian aid. Those on the right that do not appear on the left are primarily francophone countries of western Africa.

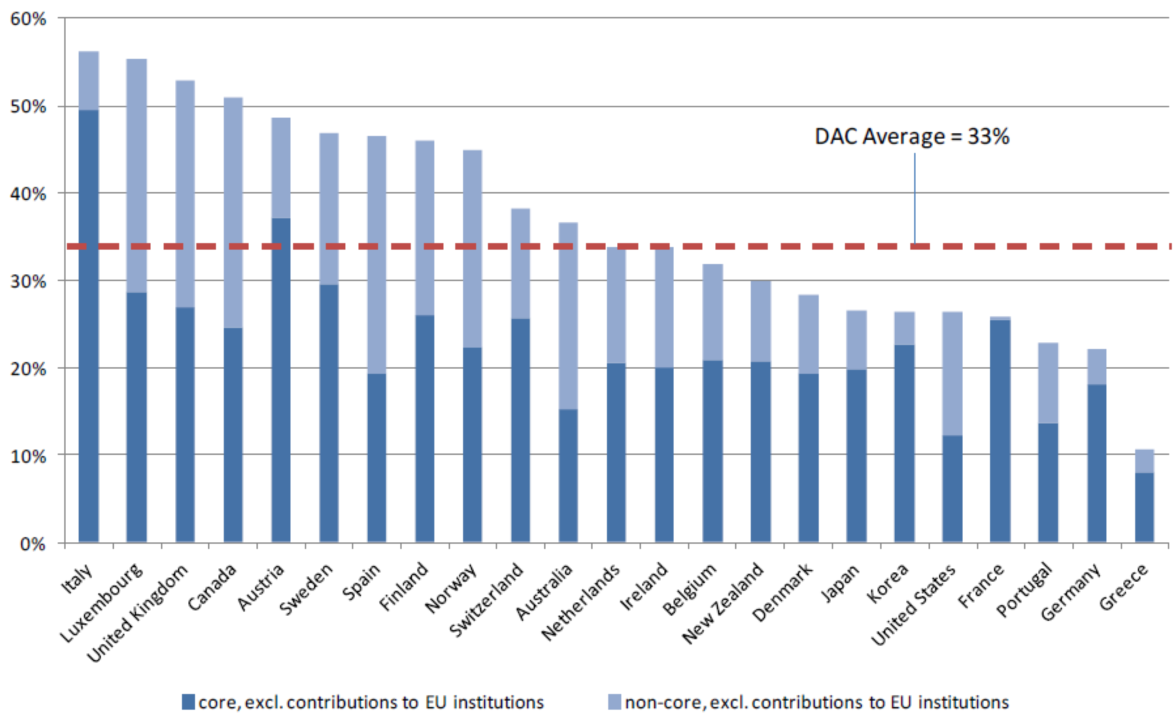
Table 1: top ten recipients of Australian and AfDF assistance, 2011

Australia	AfDF
1. Somalia: 63.08m	1. Ethiopia: $233.34m
2. Zimbabwe: 47.55m	2. Tanzania: $159.51m
3. Libya: $40.95m	3. Kenya: $159.49m
4. Sudan: $31.13m	4. Côte d'Ivoire: $148.91m
5. Ethiopia: $18.82m	5. Uganda: $138.95m
6. Kenya: $15.28m	6. Ghana: $134.73m
7. Tanzania: $13.58	7. Senegal: $94.04m
8. Uganda: $11.09m	8. Burkina Faso: $86.83m
9. Congo, Dem. Rep. $10.43m	9. Rwanda: $84.84m
10. Zambia: $9.09m	10. Mali: $71.34m

5.3. Commitment to multilateralism

Third, Australia's commitment to multilateralism is at present quite low. While Australia provides around 36 per cent of its aid to and through multilateral organisations, which is a fairly average proportion for an OECD donor, Australia is quite unusual in that just under half of this amount—that is, only about 15 per cent of its aid overall—is provided as core funding to the organisations concerned; the rest is tied to specific countries and/or purposes. Figure 7, from an OECD publication[18], illustrates this.

Figure 7: Total use of the multilateral system as a percentage of gross ODA disbursements, 2010



Australia is around average in its total use of the multilateral system but the fourth-lowest in its core contributions to the system. In other words, Australia tends to use

[18] The 2012 OECD Development Assistance Committee Report on Multilateral Aid, p. 11.

multilateral organisations as delivery agents, or fund them where their activities coincide with its interests, and is less prone than most donors to support their core business. Increasing funding for the AfDB, provided it did not come at the expense of other multilateral funding, would constitute an increased commitment to multilateralism.

5.4. Consistency with G20 objectives

Fourth, 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.

A central preoccupation of the G20 development agenda has been infrastructure financing, particularly at the regional level, and particularly in Africa. The AfDB was an active participant in the development of the MDBs' Infrastructure Action Plan, prepared for and endorsed by the G20 in 2011, and is host to the Infrastructure Consortium for Africa, a G8 initiative that has been supported by the G20.

A central preoccupation of Australian aid policy since late 2011 has been "mining for development". The AfDB's African Legal Support Facility was established in 2010 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." Its work is funded from AfDB net income, an endowment fund and voluntary contributions from donors. It does not appear to have received support through Australia's Mining for Development Initiative. 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.

5.5. EBRD and IFAD comparison

Fifth, a relative point. Australia is a member of the European Bank for Reconstruction and Development (EBRD) and is in the process of rejoining the International Fund for Agricultural Development (IFAD)—the latter being relevant in this context because, though small, it is a multilateral development bank. While the wisdom of leaving IFAD was questionable on purely political grounds, the reasons given for leaving remain largely valid: its relevance has declined, it has essentially no field presence and it no longer mobilises substantial funding from OPEC sources. As for the EBRD, the case for membership has always been questionable, was largely based on access to procurement opportunities and has been questioned by successive governments. In fact, the first Rudd government decided, in 2008, to withdraw from the EBRD but backed off following the onset of the global financial crisis. The case for Australian membership of the AfDB is far stronger than that for membership of the EBRD and IFAD.

Finally, in this selective discussion of the case for membership, we briefly consider two possible objections.

5.6. Possible objection 1: debt

Some might object to increased engagement with the MDB system in that it contributes to increased indebtedness, particularly in Africa. However, like all MDBs the AfDB lends in accordance with the Debt Sustainability Framework developed by the World Bank and the IMF in 2005, and in any case Australia's capital subscription would not greatly increase the power of bank to lend on hard terms. The main effect of Australia's joining would be to expand the resources of the AfDF. AfDF loans are provided on highly concessional terms, at zero interest, and with ten-year grace periods and fifty-year maturities. In addition, a considerable share of AfDF resources, estimated at around 30 per cent in the twelfth replenishment period, is provided in grant form.

5.7. Possible objection 2: visibility

Some might also object that providing more of Australia's funding to Africa through the AfDB, and less through bilateral channels, will reduce either the diplomatic benefits of our aid engagement with the continent, or the level of recognition that is due to Australia and its taxpayers for its aid effort in Africa. To the extent that Australia wishes to use aid in a way that reinforces other elements of its relationship with Africa, and assuming that this can be done in ways that do not compromise aid effectiveness, Australia has the option of dividing any discretionary contributions to the AfDB between the AfDF and special-purpose trust funds. (See section 6.4 below for more on this point.)

However, it is important not to underestimate the visibility and recognition that could in fact be achieved through membership of the bank and participation in its board of governors. 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.

6. Funding

From the explanatory memorandum associated with the African Development Bank Bill 2013, and from the second reading speech, we know the following. As a condition of membership of the AfDB Australia will be required to purchase shares in an amount equivalent to about 1.5 per cent of the capital stock of the bank, with about $A88 million of the associated cost to be paid in and the rest, as is the norm across all MDBs, callable. Further, Australia will be required to make an initial contribution to the AfDF of about $A161 million, with further contributions to be determined as part of regular replenishment rounds. This raises three questions, as follows.

6.1. Shareholding

First, what is the rationale for determining Australia's share of the bank's capital stock? The 2012 consultation paper indicated that Australia's share would be based on Australia's IMF quota. However, Australia's quota was at that time, and remains, 1.36 per cent rather than 1.5 per cent. In addition, it is not clear why Australia's IMF quota was taken as a point of reference, since the Agreement Establishing the African Development Bank indicates only that "the initial number of shares to be subscribed by [non-original] members shall be determined by the Board of Governors". It might be that the AfDB's board has determined that Australia's share of the bank's stock should be (about) the same as its share of the World Bank's, which is 1.55 per cent, but this has not been explained.

6.2. AfDF subscription

Second, what is the rationale for determining the size of Australia's initial AfDF subscription? No rationale is suggested in the 2012 consultation paper, explanatory memorandum or second reading speech. The Agreement Establishing the African Development Fund, like the AfDB establishment agreement, indicates that the size of such initial subscriptions is a matter for the board of governors. It might well be that the $A161 million figure reflects a decision of the board of governors, but this has not been explained.

If it does reflect such a decision, we note that the board most likely took Australia's IDA "burden share" (which, since 2007, has been 1.8 per cent) as its point of reference, and applied that share to the target level of the most recent (twelfth) AfDF replenishment—since the figure proposed looks to be about 1.8 per cent of the AfDF-12 bottom line (based on the figures in Annex 1). While it does not automatically make sense to use the IDA burden share in determining the level of Australia's contribution to a regional mechanism (for example, Australia contributes well above this share to the AsDF), it does make sense to do so in the case of the AfDF, given that around half of IDA's clients are in sub-Saharan African and that the shareholders of IDA and the AfDF are much the same group.

6.3. AfDF-13

Third, how will the initial AfDF subscription relate to Australia's contribution to the thirteenth replenishment of the AfDF, negotiations for which are presently under way? The default assumption, based on our reading of the AfDF's establishment agreement, would be that the initial subscription is a separate and prior obligation, related to Australia's joining the institution, and that a further commitment of similar—or perhaps substantially greater[19]—magnitude will almost immediately be required. The AfDF negotiations will conclude in the latter part of this year[20], quite probably before the fate of the African Development Bank Bill 2013 has been determined. The government cannot be expected to nominate the size of any AfDF-13 contribution at this point, as it is a matter for negotiation among the fund's donors and AfDB regional member countries. However, the fact that the AfDF negotiations are ongoing, and that a further commitment in the order of $A200 million is likely to be required very shortly, should perhaps have been given more prominence. We would assume that Australia's burden share in AfDF-13 would be, for the reason explained above, 1.8 per cent, and would see this is appropriate.

6.4. Special-purpose funds

We make one additional point on funding, picking up on a point made at the end of the previous section. The level of a donor's contribution to the AfDF is to an extent discretionary. If a donor has met its agreed share of an agreed target (probably 1.8 per cent in Australia's case), and if that donor in fact had the capacity and initial intention to contribute a greater amount, there are two options. One is to make a supplementary contribution to the replenishment—which adds to AfDF resources but does not imply any willingness on the part of the donor to adjust its burden share upward for future replenishments. The other is to direct the additional resources to special-purpose trust funds, some of which Australia has already supported in the past as a non-member (including a water and sanitation fund, and a multi-donor trust fund for Zimbabwe). Using supplementary resources—or for that matter bilateral program resources—for such special-purpose funds can be a good way of achieving greater prominence for Australia's contribution to MDBs, and greater alignment between bank operations and Australia's country and sectoral objectives for the region. Of course Australia could

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[19] The Centre for Global Development has pointed out that in order to achieve even a modest increase in the size of the AfDF, donors will need to increase their contributions very substantially. This is because the AfDB will have less capacity to contribute from its own resources than it did in the AfDF-12 replenishment round. Exchange rate movements, which reduce the value of contributions of some major donors like the UK, are also a factor.

[20] President Kaberuka has expressed the hope that negotiations will conclude by October.

make, and has made, discretionary contributions to special-purpose trust funds as a non-member, but there is an element of free-riding about that approach.

7. Governance

In relation to Australia's engagement in the governance of the AfDB and the AfDF, there are three main questions, which we discuss below. One might have expected at least the first and second of these to be addressed in the explanatory memorandum.

7.1. Governor and alternate

First, who should be Australia's representative, and alternate, on the bank's board of governors? Various possibilities exist, and are more numerous if one assumes that, on either possible election outcome, there will be a dedicated minister for international development. One is to appoint the Treasurer as governor and the Minister for International Development as alternate. However, it seems unlikely the Treasurer would be in a position to make regular appearances at the annual meetings of the AfDB. A second and better option would be to appoint the Minister for International Development as governor and the Director General of AusAID as alternate. This is the practice of the UK in all MDBs, where the Secretary of State for International Development (a Cabinet-level position), currently Justine Greening, holds the governorships. In most cases the UK alternate positions are assigned to a junior minister in Greening's portfolio (currently Alan Duncan) though in the case of the World Bank the alternate is the Chancellor of the Exchequer, currently George Osborne.

The UK arrangements are quite unusual but sensible given that in major donor countries, like the UK and Australia, 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.

7.2. Constituency

Second, what existing constituency would Australia join? There are seven constituencies of non-regional member countries in the boards of the AfDB and the AfDF (see Annex 2). It is not at all clear which of these existing constituencies might have an opening, let alone which one the government intends to target. Taking into account the fact that the US does not "share", there are six constituencies (see Annex 2) that Australia could, in principle, approach. The most obvious one for Australia to target, on the basis of general like-mindedness, would the Italy/Netherlands/UK constituency. However, thanks to the increasing generosity of the UK as a contributor to the AfDB, that constituency is now quite overweight in terms of voting power—accounting for 9.2 per cent of all votes[21], whereas the other five extra-regional constituencies each account for five to seven per cent of votes.

The most underweight of the five, with 5.6 per cent of votes, is the Canada/Kuwait/China/Korea constituency. Australia can clearly work well with all these countries, and there has been increasing dialogue and cooperation between Australia and three of them—Canada, Korea and China—on aid matters in recent years. It should also be noted that three of the four countries in this constituency control less than one per cent of votes, such that Australia would likely become the second-largest member of the constituency. This would mean that Australia would likely hold the executive director position on a regular basis, and also that in general it would probably hold either that position or the alternative executive director position.

[21] Voting power is determined by a country's share in subscribed capital, adjusted to reflect cumulative contributions to the AfDF.

7.3. Supporting the Boards of Directors

Regardless of whether Australia holds the executive director position, or the alternate executive director position, within its constituency, the Australian government will need to develop policy positions on matters before the boards of the AfDB and the AfDF[22], in consultation with other countries in the constituency and likeminded countries in other constituencies. It will also need to monitor closely the operations of the bank both at headquarters and in the field, and ensure observations from the field are fed back to headquarters in order to inform Australia's engagement in the boards of the bank and the AfDF. It would be difficult to engage appropriately in the governance of the bank without at the very least one adviser in the office the executive director representing Australia. Such an adviser position would not be rendered redundant by the appointment of an Australian to the executive director role; in fact it would be all the more necessary. If an Australian were to hold the alternate role, this might obviate the need for a separate advisory position—as in the case of the AsDB. The adviser, or alternate executive director, should be appointed from AusAID.

There would also be substantial resource implications for AusAID at headquarters, and minor implications for the Treasury, depending on how closely the latter organisation wished to shadow AusAID's engagement with the bank. AusAID at headquarters, and also through 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 feeding those views to Tunis/Abidjan. 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

[22] These are two different entities. However, the representation of the non-regional member countries is the same in both boards. There are 14 seats in the AfDF board, divided equally between regional and extra-regional constituencies. There are 20 seats in the AfDB board, with 13 for regional and seven for extra-regional constituencies.

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.

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Annex 1: Subscriptions to ADF-12

SUBSCRIPTIONS TO THE TWELFTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND

STATE PARTICIPANTS / ETATS PARTICIPANTS	ADF-12 PLEDGES / INTENTIONS DE SOUSCRIPTIONS AU FAD-12								ADF-9 GRANT COMPENSATION [1] / COMPENSATION DES DONS DU FAD-9 [1]		TOTAL CONTRIBUTIONS FOR ADF-12 PERIOD CONTRIBUTIONS TOTALES DURANT LA PERIODE DU FAD-12		CHANGE VERSUS ADF-11 EVOLUTION COMPARATIVE FAD-11	
	ADF-12 BURDEN SHARE / QUOTE-PART DU FAD-12	SUBSCRIPTION in UA / SOUSCRIPTIONS en UC	EXCHANGE RATE / TAUX DE CHANGE	UNIT OF OBLIGATION / DEVISE DE SOUSCRIPTIONS	SUBSCRIPTION in CURRENCY / SOUSCRIPTIONS en DEVISE	(%) Change vs ADF-11 in burden share / (%) Evolution comp. FAD-11 en quote-part	(%) Change vs ADF-11 in UA / (%) Evolution comp. FAD-11 en UC	(%) Change vs ADF-11 in Ccy / (%) Evolution comp. FAD-11 en devise	IN UA / EN UC	IN CCY / EN DEVISE	IN UA / EN UC	IN CCY / EN DEVISE	(%) Change vs ADF-11 in UA / (%) Evolution comp. FAD-11 en UC	(%) Change vs ADF-11 in Ccy / (%) Evolution comp. FAD-11 en devise
1 ARGENTINA / ARGENTINE	0,239%	9 771 350	1,53510	USD	15 000 000	-	-	-	-	-	9 771 350	15 000 000	-	-
2 AUSTRIA / AUTRICHE [2, 3, 6]	2,340%	95 706 248	1,12297	EUR	107 475 245	0%	11%	11%	1 037	1 164	95 707 284	107 476 409	11%	11%
3 BELGIUM / BELGIQUE [3, 12,13]	2,060%	84 241 446	1,12297	EUR	94 600 617	-1%	10%	10%	1 745	1 959	84 243 191	94 602 576	10%	10%
4 BRAZIL / BRESIL	0,235%	9 607 954	1,53510	USD	14 749 170	32%	47%	47%	371	570	9 608 325	14 749 740	47%	47%
5 CANADA / CANADA [4, 6]	4,999%	204 447 958	1,59262	CAD	325 607 906	0%	11%	8%	4 758	7 578	204 452 716	325 615 484	11%	8%
6 CHINA / CHINE [4]	2,052%	83 921 666	1,53510	USD	128 828 150	-5%	5%	6%	1 736	2 665	83 923 403	128 830 815	5%	6%
7 DENMARK / DANEMARK [3, 5]	1,891%	77 325 113	8,35685	DKK	646 194 370	37%	51%	51%	3 172	26 509	77 328 285	646 220 879	51%	51%
8 EGYPT / EGYPTE	0,032%	1 302 847	1,53510	USD	2 000 000	-	-	-	-	-	1 302 847	2 000 000	-	-
9 FINLAND / FINLANDE	2,739%	112 023 671	1,12297	EUR	125 799 222	14%	26%	26%	1 586	1 781	112 025 257	125 801 003	26%	26%
10 FRANCE / FRANCE [6]	8,710%	356 198 296	1,12297	EUR	400 000 000	-20%	-12%	-	7 748	8 701	356 206 044	400 008 701	-12%	-
11 GERMANY / ALLEMAGNE [11]	9,472%	387 365 646	1,12297	EUR	435 000 000	-12%	-3%	-	8 834	9 920	387 374 480	435 009 920	-3%	-
12 INDIA / INDE	0,231%	9 427 031	70,36825	INR	663 363 667	32%	47%	65%	184	12 948	9 427 215	663 376 615	47%	65%
13 ITALY / ITALIE [7]	4,751%	194 266 873	1,12297	EUR	218 155 870	-10%	0%	0%	4 547	5 106	194 271 419	218 160 976	0%	0%
14 JAPAN / JAPON [8]	6,715%	274 594 890	139,97830	JPY	38 437 325 866	-5%	5%	-19%	9 323	1 305 010	274 604 213	38 438 630 876	5%	-19%
15 KOREA / COREE	1,317%	53 857 279	1 759,73269	KRW	94 774 413 589	50%	66%	106%	672	1 183 402	53 857 951	94 775 596 991	66%	106%
16 KUWAIT /KOWEIT	0,180%	7 361 325	1,53510	USD	11 300 369	0%	11%	11%	177	271	7 361 501	11 300 640	11%	11%
17 THE NETHERLANDS / PAYS-BAS	4,917%	201 061 742	1,12297	EUR	225 786 304	-10%	0%	0%	3 912	4 393	201 065 654	225 790 698	0%	0%
18 NORWAY / NORVEGE [3,6]	4,396%	179 774 236	9,09039	NOK	1 634 217 918	-3%	8%	9%	3 743	34 026	179 777 979	1 634 251 944	8%	9%
19 PORTUGAL / PORTUGAL [3]	0,723%	29 564 459	1,12297	EUR	33 200 000	-10%	0%	0%	679	762	29 565 137	33 200 762	0%	0%
20 SAUDI ARABIA / ARABIE SAOUDITE	0,478%	19 542 701	1,53510	USD	30 000 000	8%	19%	20%	571	877	19 543 272	30 000 877	19%	20%
21 SOUTH AFRICA / AFRIQUE DU SUD [9]	0,255%	10 424 062	11,50893	ZAR	119 969 803	32%	46%	55%	125	1 435	10 424 187	119 971 238	46%	55%
22 SPAIN / ESPAGNE [14]	3,000%	122 681 728	1,12297	EUR	137 767 900	0%	11%	11%	2 426	2 725	122 684 154	137 770 625	11%	11%
23 SWEDEN / SUEDE [15]	4,354%	178 035 844	11,15736	SEK	1 986 410 006	0%	11%	19%	4 229	47 190	178 040 074	1 986 457 195	11%	19%
24 SWITZERLAND /SUISSE [5, 6]	2,466%	100 838 741	1,63550	CHF	164 921 761	0%	11%	-	3 172	5 188	100 841 913	164 926 949	11%	-
25 UNITED ARAB EMIRATES / E.A.U	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26 UNITED KINGDOM / ROYAUME-UNI	13,997%	572 397 673	0,99056	GBP	566 994 239	-5%	5%	36%	5 816	5 761	572 403 489	567 000 000	5%	36%
27 UNITED STATES OF AMERICA / ETATS-UNIS [10]	9,319%	381 070 169	1,53510	USD	584 980 816	12%	24%	25%	12 497	19 184	381 082 666	585 000 000	24%	25%
			vs ADF-11											
TOTAL DONOR CONTRIBUTIONS (a) SOUSCRIPTIONS DES DONATEURS	91,87%	3 756 810 946	6,8%						83 060		3 756 894 006			
SUPPLEMENTARY CONTRIBUTIONS (b) SOUSCRIPTIONS SUPPLEMENTAIRES	0,74%	30 111 681	-31,3%											
TECHNICAL GAP (c) DEFICIT TECHNIQUE	7,40%	302 468 300	122,9%											
REPLENISHMENT LEVEL (d) = (a)+(b)+(c) NIVEAU DE RECONSTITUTION	100,00%	4 089 390 927	10,6%											
ADVANCE COMMITMENT CAPACITY (e) CAPACITE D'ENGAGEMENT ANTICIPE		2 007 340 552	-2,7%											
TOTAL RESOURCES - GAP INCLUDED (d)+(e) TOTAL DES RESSOURCES - DEFICIT INCLUS		6 096 731 479	5,8%											
TOTAL RESOURCES - GAP EXCLUDED (d)+(e)-(c) TOTAL DES RESSOURCES - DEFICIT EXCLU		5 794 263 179	3,0%											

Source: ADF-12 replenishment report

Annex 2: ADF Board of Directors

Appendix III-3

Board of Directors of ADF: Voting Powers and Countries Represented as of December 31, 2012

Executive Director/Alternate	Participant	Voting Power in %*	Voting Power by constituency
Mamadou Abdoulaye Sow**	ADB	7.143	
Abdelhak Benallegue**	ADB	7.143	
Mohit Dhoorundhur**	ADB	7.143	
Amadou Kone**	ADB	7.143	
Mohamed Mahroug**	ADB	7.143	
Mary Muduuli**	ADB	7.143	
Pedro Mampuya Francisco Tombwele**	ADB	7.143	
			50.000
Walter Crawford Jones	United States of America	5.494	
Alexander Severens	United States of America		
			5.494
Masahiro Kan	Japan	5.706	
Abdulrahman Abubakr	Saudi Arabia	0.620	
	Argentina	0.004	
	Austria	0.864	
	Brazil	0.314	
			7.509
Margit Thomsen	Denmark	1.311	
Per Erik Trulsson	Sweden	2.671	
	Finland	1.082	
	India	0.182	
	Norway	2.195	
			7.440
Christoph Kohlmeyer	Germany	5.160	
	Portugal	0.346	
	Switzerland	1.832	
			7.338
Hau Sing Tse	Canada	3.765	
Thamer Husain	Kuwait	0.433	
	China	0.980	
	Korea	0.459	
			5.638
François Kruger	France	5.175	
José Nuno	Spain	1.173	
	Belgium	0.994	
			7.342
Vincenzo Zezza	Italy	2.785	
Pim De Keizer	The Netherlands	2.072	
	United Kingdom	4.363	
			9.219
Vacant	United Arab Emirates	0.019	
			0.019
GRAND TOTAL			**100.000**

Source: AfDB 2012 Annual Report