Joint Standing Committee on Treaties (JSCOT) AfDB Hearing

Additional Committee Questions

1. The African Development Bank was founded in the mid-1960s, and the African Development Fund was founded in the early 1970s.
    a. Have we ever been members before?

No

    b. Why is now the right time to join?

Now is the right time to join because the Government needs effective partners, with experience in Africa, to deliver on its decision to increase its assistance to Africa.

Increasing aid to Africa, and doing it specifically through the AfDB is also consistent with recommendations 5 and 14 of the 2011 Independent Review of Aid Effectiveness, which was commissioned to advise the Government on how to best affect its decision to scale up aid spending.

The Review can be found at http://www.aidreview.gov.au/report/index.html

2. The NIA states: "AfDB membership will also give Australia access to new networks in Africa, which can assist in pursuing Australia's multilateral interests."
    a. What are these networks?
        i. Are they formal or informal?
            1. Are the formal networks as reliable as the AfDB Group?

Joining the AfDB will provide Australia with access to a variety of existing formal and informal networks, which can assist in pursuing our multilateral interests.

There are 78 member nations of the AfDB (54 regional and 24 non-regional nations). Each member nation is represented on the Board of Governors and through the Board of Directors of the Bank. Australia would be able to develop formal relationships (as part of Bank business) as well as informal relationships.

Australia would gain informal access Lusophone and Francophone networks, to complement Commonwealth alignment. Nations within these linguistic networks have strong ties to each other and would discuss between themselves issues that are not spoken of freely as part of AfDB business.

There are also multiple Regional Economic Communities (RECs) in Africa. RECs are intended to represent nations in North, South, East, West and Central Africa. The RECs consist primarily of trade blocs and, in some cases, some political and military cooperation. Being a member of the AfDB would allow Australia the opportunity to create strong informal ties with these networks.

Australia would also have the opportunity to form more formal relationships with regional development bodies that do business with the AfDB, including the Infrastructure Consortium of Africa (ICA), a G8 initiative.

The ICA, whose secretariat is housed within the AfDB, aims to help improve the lives and economic well-being of Africa's people through encouraging, supporting and promoting increased investment in infrastructure in Africa, from both public and private sources. Both the European Investment Bank and the World Bank are also members of the ICA. Being a member of this network would enable Australia to influence the regional infrastructure agenda and share Australian knowledge on public-private partnerships to increase private sector involvement in African countries.

Australia would have access to the African Union (AU) through AfDB's member countries. The AU's main objectives are, inter alia, to rid the continent of the remaining vestiges of colonization and apartheid; promote unity and solidarity among African States; coordinate and intensify cooperation for development; safeguard the sovereignty and territorial integrity of Member States and to promote international cooperation within the framework of the United Nations.

Australia would be able to further pursue its aid agenda for Africa in these different fora through the relationships it will have already formed through AfDB membership.

3. The NIA states: "Payments are denominated in International Monetary Fund Special Drawing Rights (SDR) and therefore subject to exchange rate movements between Australian dollars and SDR."

   and

   "Both the AfDF and AfDB agreements require Australia to maintain the value of its currency holdings. If, in the opinion of the AfDF or AfDB, the currency used by Australia to make its payments were to appreciate or depreciate significantly, Australia shall either be reimbursed or be required to make further payments in order to maintain the value of its holdings."

   a. Do we hedge our payment so that we are not exposed to any exchange rate fluctuation risk?

The relevant clauses in the AfDB and AfDF agreements referred to in the second quote in this question won't create a risk of Australia having to reimburse the AfDB because the AfDB will not hold Australia's payments in AUD. While Australia will make its payments in AUD, the value of each of these payments in AUD will be determined by their fixed value in SDR at the time of each payment. Upon receiving the AUD payments, the AfDB will exchange the AUD into one of the SDR currencies (US dollar, Yen, British Pound or Euro) for the purposes of holding and spending these payments.

As a matter of policy, Government agencies are prohibited from entering into any form of hedging for the purposes of managing exchange rate risk. Rather, the Government self-insures foreign exchange exposures. For further details see *http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/docs/Aust-FX-Risk-Management-Guidelines.pdf*

4. The NIA states: "As part of its initial contribution, Australia will take on a contingent liability ('callable capital') with the AfDB of between SDR 463 – 926 million (approximately A$721 million – A$1.4 billion), which would be called on if the AfDB is unable to meet its financial liabilities." Although the NIA also states that: "The AfDB has never called on this extra capital, nor has any other multilateral development bank with similar provisions for callable capital."
    a. What sort of 'due diligence' has been done on this 'contingent liability'?
        i. Is Australia suddenly and unexpectedly going to be asked to provide an extra billion dollars?

In assessing the benefits of joining the bank, Treasury and AusAID undertook appropriate due diligence and found that:

1. *all four major credit rating agencies have given the AfDB their top rating (AAA);*
2. *none of the recent assessments of the AfDB (Australian Multilateral Assessment, Multilateral Aid Review, MOPAN) have raised concerns over the AfDB's solvency;*
3. *the AfDB is subject to an annual independent financial audit, which has not raised such concerns;*
4. *since its founding in 1964 the AfDB has never called on its callable capital;*
5. *no multilateral development bank which Australia currently transacts business with (such as the World Bank, Asian Development Bank and European Bank for Reconstruction and Development) has ever called on its callable capital;*
6. *in 2010, all the Bank's existing members were sufficiently satisfied with the Bank's financial stability to double their respective contingent liability obligations to the AfDB, by providing a 200 per cent general capital increase, doubling each shareholding;*
7. *in the event of a default, Australia would only cover between 0.7 to 1.4 per cent of the outstanding debt (equivalent to our share of AfDB capital) - other member countries would be liable for the remainder; and*
8. *Australia, along with other developed member countries will collectively have a strong voice and a close involvement in the running of the Bank and in the oversight of its finances.*

5. The NIA states: "AfDB membership will also assist in creating business opportunities for Australian companies via procurement opportunities and infrastructure development."
    a. Has the government been lobbied by businesses to sign up to this agreement?
        i. If so, which ones?
            1. What do they perceive to be the benefit?

Lobbying from the Australian business community only occurred during the National Interest Analysis (NIA) consultation process on Australia's pursuit of AfDB membership, and details are provided in paragraph 49 of the NIA.

Submissions were received from the Australia-Africa Mining Industry Group (AAMIG) and SMEC International Pty Ltd, an Australian-based global engineering and development consultancy firm which has a specific interest in Africa.

Paragraph 52 of the NIA refers to the AAMIG Submission, which noted that "membership would provide Australia the opportunity to engage in a policy dialogue on key development issues and to see how other member countries see African development challenges and priorities". It also mentioned that priorities for the AfDB include "support for the drivers of strong and more equitable growth – including through infrastructure, economic integration, private sector operations, governance and higher education", which is consistent with "…Australia's strategic goals for its aid programs…"

Paragraph 52 of the NIA also references the SMEC International Pty Ltd Submission, which notes that Australia "must be in the forefront of the global movement for building a world which is more fair and equitable…" and that "contribution to such effort will automatically result in [Australia] benefitting from such an effort in material [gains] and satisfaction from contributing to betterment of the world."