



Australian Government
AusAID



Proposal for Australia to Pursue Membership of the African Development Bank and the African Development Fund

Consultation Paper

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Public Consultations

AusAID is seeking written submissions from the public, providing views on the Government's proposal for Australia to pursue membership of the African Development Bank and African Development Fund. Submissions will form part of a National Interest Analysis to be considered by Parliament's Joint Standing Committee on Treaties.

Submissions should address the following:

- 1) Should Australia become a member of the African Development Bank and African Development Fund?
- 2) Will joining the African Development Bank and African Development Fund help address poverty and development challenges in Africa?
- 3) Is becoming a member of the African Development Bank and the African Development Fund in Australia's national interest?

Written submissions should be emailed to afdb-membership@ausaid.gov.au.

The closing date for submissions is 14 August 2012.

Further details can be found on AusAID's website: www.ausaid.gov.au/afdb-membership

Summary

This consultation paper considers:

- (a) the relative effectiveness of the African Development Bank (AfDB) and the African Development Fund (AfDF)
- (b) the suitability of the AfDB and AfDF as primary development partners for Australia in Africa
- (c) the extent to which membership of the AfDB and AfDF would advance Australia's national interests.

Africa is one of the fastest growing regions in the world. Africa is more stable, peaceful, free and prosperous than ten years ago and trends in development are increasingly positive. Increased democracy and improved governance, and economic and financial reforms, are all helping Africa realise its economic and strategic potential. In this context, improving capacity of African institutions, including the AfDB, is important in supporting Africa's further development.

As an African-majority owned organisation with a mandate to spur economic growth and reduce poverty, the AfDB is a growing part in the global architecture, and one that has particular significance and integrity in the African context. The significance of the AfDB as a key player in Africa is becoming readily apparent as Africa takes on an increasingly important role in global affairs.

Australian membership of the AfDB offers the opportunity to extend our reach and impact in Africa, reduce aid fragmentation, and to work more effectively in more development areas than are possible when working alone or through bilateral mechanisms. Membership would provide Australia with the opportunity to engage in policy dialogue on key issues and to better understand how member countries see African development problems, priorities and issues. In addition, membership would give Australia access to important new networks in Africa and elsewhere which would provide opportunities to better contribute effectively to development outcomes on the continent.

Introduction

The Evolution of Australia's Development Assistance to Africa

Australia is a modest donor in Africa, and is operating in a complex donor environment. Aligning our strategic priorities and working in partnership with other development partners is critically important for both extending the reach of our programs and ensuring the effectiveness of our aid. Australia has already begun developing such partnerships with African institutions, including the African Union, regional agricultural institutions, and the AfDB.

In 2008, the Australian Government began to strengthen and broaden our linkages with Africa. This included increases in humanitarian aid, development assistance, strengthened diplomatic relations and enhanced trade and commercial linkages.

AusAID has been developing a working partnership with the AfDB since 2008, particularly in the water and sanitation sector. This has formed part of Australia's approach to gaining a better understanding of AfDB's capacities and issues, and has included collaboration in Malawi, Zimbabwe, and a contribution to the AfDB-managed regional African Water Facility.

What is the African Development Bank Group?

The AfDB Group is a substantial multilateral development bank that aims to promote sustainable economic growth and reduce poverty in its regional member countries by providing concessional loans, grants and technical assistance for development purposes. Founded in 1964, the Bank consists of three separate but connected institutions:

- 1) the African Development Bank (AfDB)
- 2) the African Development Fund (AfDF)
- 3) the Nigeria Trust Fund (NTF)¹.

The AfDB has an ambitious agenda, broadly seeking to become the preferred development partner for African countries, whilst simultaneously providing quality investment opportunities and advice to members and partners. The AfDB currently has 77 shareholders (comprising 53 regional members and 24 non-regional members).

¹ The African Development Bank manages the Nigeria Trust Fund on a delegated basis.

The AfDB is currently located in Tunis, but remains committed to returning to its permanent headquarters in Abidjan, Cote d'Ivoire. The AfDB relocated to Tunisia in 2003 as a result of instability in Cote d'Ivoire.

Bank rules ensure the AfDB maintains a 60:40 share split such that regional members hold at least 60 per cent of shares (giving the AfDB its African-majority owned status) and non-regional members hold up to a maximum of 40 per cent of shares.

The AfDB has selectively improved its operational focus in infrastructure, governance, developing robust private sector interventions, and in promoting higher education. Through improving the quality of its investments in these areas, the AfDB has contributed directly to regional integration, the transition of middle income countries, fragile states assistance, increased levels of human development, and improved overall agriculture outputs. Knowledge generation, climate change and gender policies are being mainstreamed in all AfDB operations. At the end of 2011, the Bank's portfolio consisted of 769 operations with a combined value of US\$34 billion.

The African Development Fund (AfDF) offers loans at highly concessional interest rates and grants that help reduce poverty in AfDB's poorest borrowing countries. It is financed by contributions from 26 developed members and members who no longer require AfDB assistance, as well as transfers of earnings from AfDB's investments. The fund is usually replenished every three years.

The AfDF has been replenishment 12 times, with the most recent replenishment occurring in September 2010, covering the period 2011-2013. That replenishment is commonly known as AfDF 12. During the AfDF 12 replenishment, donor countries agreed to contribute US\$9.5 billion in new resources of the AfDF. The United Kingdom, Germany, United States of America, France and Japan are the top five donors to the AfDF 12.

The 2011 African Development Bank Assessment

In July 2011, AusAID conducted a formal assessment of AfDB's developmental and organisational effectiveness and reported to Government. AusAID assessed in detail AfDB's operations in Zimbabwe, which began in 2010, and in Malawi, which began in 2008. Assessing AfDB's operations in Zimbabwe represented a good test case of the AfDB's capabilities in a fragile and complex situation involving donor sanctions. The Malawi assessment highlighted the Bank's operations in a small, and until very recently, stable country which is also one of the world's poorest countries.

AusAID's assessment found the AfDB and AfDF to be developmentally and organisationally effective, although there are still areas for improvement. The assessment found that:

- in Zimbabwe, the AfDB has filled a gap left by others. It has acted deftly and flexibly and continues to balance a set of complex challenges in a difficult and fragile environment
- in Malawi, decentralisation by the AfDB is having a positive impact, as is its growing portfolio size. The Government of Malawi views the AfDB positively for its willingness to work with it to deliver solutions that better meet Government priorities
- the AfDB is attempting to become more relevant in fragile states and in post-conflict situations, as evidenced in Zimbabwe and Cote D'Ivoire, where the AfDB rapidly disbursed significant funds to help maintain the machinery of government; the AfDB is also expected to play a significant role in South Sudan
- aid effectiveness at the AfDB is improving – it is achieving better outcomes on ownership and harmonisation principles, assisted by its increasing field presence.

Should Australia become a member of the African Development Bank and the African Development Fund?

AfDB's Organisational Effectiveness

The AfDB and AfDF received a favourable review in the Australian Multilateral Assessment (AMA) of effectiveness of international development organisations. The AMA highlighted AfDB and AfDF's demonstrated delivery of strong, tangible results; substantial experience in African countries; strong relationships with partner governments; and clear allocation of resources in accordance with published criteria. However, the AMA also identified areas for improvement including:

- strengthened focus on gender mainstreaming, climate change and environment, and implementing a disability policy
- increasing management capabilities to institute and guide the implementation of operational and organisation policies
- increased efforts in engaging in constructive partnership behaviour including fostering participatory approaches with marginalised groups and beneficiaries
- increased efforts to promote transparency and accountability in partners and recipients, including increased visibility and disclosure of results.

The AfDB enjoys a 'AAA' rating from the main international rating agencies enabling it to leverage members' equity within the Bank to raise additional funds to increase development assistance for borrowing members.

According to the AfDB's own assessment, implementation of recent institutional reforms (including in the areas of enhanced corporate services delivery, budget reform, increased decentralisation and improved operations business processes) has:

- strengthened the linkage between institutional priorities and resource allocation
- enhanced institutional budget flexibility through devolved authority
- reinforced the new accountability and performance framework by linking deliverables to key performance indicators
- introduced a consolidated, multi-year programming and budgeting framework.

Highlights from the assessment of, and targets for, operational effectiveness taken from the AfDB's report on development effectiveness are provided at Annex A.

In 2010, the Multilateral Organisations Performance Assessment Network (MOPAN)² assessed AfDB operations. MOPAN rated the AfDB as performing ‘strongly’ or ‘adequately’ in the majority of the 19 indicators used in the four management areas of strategic management, relationship management, knowledge management and operational management.

In 2010, the UK Department for International Development (DFID), within their Multilateral Aid Review, ranked the AfDF (the concessional lending arm of the AfDB) sixth out of 43 multilateral institutions in terms of organisational strength, ahead of the IDA (World Bank) at equal 10th. DFID noted that “*the AfDB plays a strong role in public financial management for clients. Its systems require value for money considerations and the Board ensures compliance. DFID judges the Board and management to be effective at controlling administrative budgets.*”

Decentralisation

All three assessments noted that donors wanted to see greater decentralisation in the AfDB. The Bank currently has 25 field offices, and its own decentralisation road map proposes an increased presence in fragile states, with four new offices in Burundi, Central African Republic, Liberia, and Togo. By expanding its presence in fragile states, the AfDB expects to improve its portfolio management, support efforts to improve weak government capacity, promote better donor coordination and harmonise and strengthen the AfDB’s ability to respond to the specific needs of these countries while deepening its analytical work in them. However, delegation of authority remains an area that could be improved and this is being further examined as part of AfDF 12 commitments.

Strengthening field offices will be achieved through increased staffing levels (including specialist staff) and portfolio management and implementation responsibilities. This will give the Bank an expanded role in analytical work, which will support its policy dialogue with its client governments and the donor community.

Human resource reforms

Strengthening AfDB human resource management is another area of focus for organisational effectiveness. External reviews have noted the need for results-focused performance agreements for senior staff, transparent incentive systems for performance-based reward, and merit-based appointments and promotions.

The AfDB has a high rate of staff attrition and it is determined to reduce this and bring down the vacancy rate. It is rolling out a recruitment manual and plans to improve its staff career development framework. The performance management system is also being strengthened and will distinguish between managers and experts.

² The Multilateral Organisation Performance Assessment Network (MOPAN) is a network of 16 donor countries with a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund.

Bank procedures

There are still perceptions of inflexibility and inefficiency in some of the Bank's procedures, and significant delays sometimes occur internally. Both the MOPAN and DFID reviews recommended AfDB use national procurement systems where possible, and use fewer Project Implementation Units, typically used in parallel with Government systems. Despite this, procurement systems, and data reporting are strong.

Knowledge products

The AfDB plans to strengthen the thematic scope and increase dissemination of its knowledge products. During the recent fund replenishment of the AfDF (AfDF 12) it agreed to generate products to contribute to its own effectiveness, develop client countries' capacity for policy making, and strengthen statistical capacity. It will also conduct research and strengthen its flagship publications. The 2011 publication *Infrastructure and Growth in Zimbabwe: An Action Plan for Sustained Strong Economic Growth* represents a prime example of quality research designed to robustly underpin and guide country strategies.

Operations Evaluation Department

The Operations Evaluation Department is highly respected and is viewed as a major strength for the AfDB. Evaluation recommendations are regularly acted upon due to the Operations Evaluation Department's credibility. Its strength enabled the AfDB to promote and report on results, a point that was reinforced by the Centre for Global Development's Quality of Official Development Assistance (QuODA)³.

“QuODA rates the AfDB highly in terms of the results agenda - it is judged second only to the Global Fund - on the basis of the country focus of its aid and use of a performance based allocation tool, its administrative costs, the high percentage of country programmable aid, its focus by sector, and its share of untied aid”.

³ Quality of Official Development Assistance (QuODA) assessment is undertaken by the Centre for Global Development and Brookings Institution.

Will joining the African Development Bank and African Development Fund help address poverty and development challenges in Africa?

AfDB and AfDF Development Effectiveness

There is strong evidence that the AfDB and the AfDF are having a significant impact on reducing poverty in Africa.

The AfDF 12 Deputies Report (representing views of AfDF members following the conclusion of the replenishment) noted that participants commended the AfDB for its steady progress towards the global agenda on managing for development results. Participants endorsed the Bank's increasing attention to measuring and reporting on its contribution to development outcomes. Participants were also encouraged by the implementation of the AfDF 11 *Results Management Framework* and of institutional reforms detailed in an *Action Plan on Quality and Results*.

In 2011, the AfDB published its first *Annual Development Effectiveness Review (ADER)*, reporting on four levels of a Results Management Framework. These levels include:

- *Level 1*: an overview of Africa's overall development achievements and trends in nine areas, including growth, human development, public service delivery, and governance
- *Level 2*: a description of the Bank's contribution to those results
- *Level 3*: an examination of how well the bank manages its portfolio of operations
- *Level 4*: a description of how well the Bank manages its own organisation, looking at progress made in areas like decentralisation of AfDB operations and human resource management.

The 2011 ADER, and the recently released 2012 ADER, are credible reports demonstrating the Bank's strengths and weaknesses. The ADER provides strong evidence that the AfDB is an important contributor to Africa's development. The report demonstrates a very high level of achievement against planned outputs, with 78% of operations reaching or passing their goal (Annex A provides a selection of key results reported in the 2012 ADER).

There still remains room for improvement, and the AfDB is clearly committed to implementing continued reforms to improve development and organisational effectiveness and impact.

AfDB's work in Fragile States

Fragile states have “*recurrent cycles of weak governance, poverty, and violence...and [their] problems spread easily: they drag down neighbours with violence...Their territories can become breeding grounds for far-reaching networks of violent radicals and organized crime*”.⁴

The AfDB appears to be acutely aware that delivering effective action in fragile state situations matters. It has a particular comparative advantage working at the early stages of recovery in post-crisis situations in Africa. Recent examples include Liberia, Zimbabwe, and Sierra Leone. There are significant risks in operating in such circumstances, when rapid action is required to stabilise a country.

In 2008, the AfDB established the Fragile States Facility, focussing on three areas to support economic recovery in fragile situations:

- supplemental investment support in the Bank's priority areas
- arrears clearance
- targeted support for capacity building and technical assistance.

AfDF 12 donors agreed to set aside over 12% (or around US\$1.1 billion of total AfDF 12 resources) for the Fragile States Facility. The Facility is making a significant difference to African fragile states, including:

- establishing arrears clearance processes to enable countries under arrears-induced sanctions (such as Togo), to more quickly re-engage with the international community
- providing budget support for the rehabilitation of basic services in infrastructure, in particular water and sanitation, which has resulted in increased access to safe water for marginalised communities in countries like Comoros, Liberia, and Zimbabwe
- providing support in Somalia, which for the first time in 20 years, has developed a national budget framework and budget accounts
- responding rapidly following political upheavals in Cote d'Ivoire, providing about US\$150 million in emergency budget support to help kick start state functions (60% sourced from the Fragile States Facility).

The AfDB will be tested in its response in South Sudan. The Government of South Sudan has requested that the AfDB play a key role coordinating donors in supporting the Government's new national development plan. According to the AfDB, it has already been engaged in a number of efforts aimed at dealing with the formulation of a comprehensive operational strategy for South Sudan which will ensure it has a sound and sustainable development landscape from the outset. The AfDB's work on regional integration will be of significant assistance to South Sudan, given the constraints it will face as a land-locked country.

⁴ 2011 World Development Report, *Conflict, Security and Development*.

AfDB commitment to the Paris Declaration and Accra Agenda for Action

The Paris Declaration and Accra Agenda for Action are about finding ways to deliver aid more effectively. The Paris Declaration promotes the principles of recipient ownership, donor alignment, donor harmonisation, results based analysis and mutual accountability. The Accra Agenda for Action was designed to strengthen and deepen implementation of the Paris Declaration and to accelerate improvement in three particular areas: ownership, inclusive partnerships and delivering results.

Independent studies of AfDB performance in relation to aid effectiveness are mixed in their assessment of the Bank. QuODA (based on 2008 data) reported the AfDB to be better at maximizing efficiency (results) and fostering institutions (ownership), average at reducing burden (alignment) and poor at transparency and learning (mutual accountability). The UK MAR suggested, however that the AfDB was open, transparent and accountable.

In May 2011, the AfDB released its own assessment of its performance against Paris Declaration indicators. It reported that “...*the Bank has performed well on ownership and harmonisation principles... With increased field presence the Bank has increasingly participated in consultative mechanisms and frameworks. The Bank’s performance has not been satisfactory with regard to alignment, managing for development results and mutual accountability, although some progress has been noted in these areas.*”

A Road Map on Aid Effectiveness was submitted to the AfDB Board in April 2011⁵, highlighting the AfDB’s determination to step up efforts. The Road Map noted that performance deteriorated between 2005 and 2007 and committed the Bank to a five point action plan:

- 1) raising awareness (of the Paris principles) and reinforcing them as priorities
- 2) mainstreaming the monitoring of aid effectiveness
- 3) reviewing Bank policies, processes and practices, including incentives
- 4) providing operational guidance on good practice
- 5) engaging in international dialogue on aid effectiveness.

⁵ <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Rev%20-%20Roadmap%20Aid%20Effectiveness.pdf>

Value for money

The Australian Multilateral Assessment concluded that the Australian Government could have a high degree of confidence that any increases in funding to the Bank will deliver tangible development benefits and represent good value for money.

Through the Bank's Annual Development Effectiveness Review the AfDB has demonstrated that it is a valuable contributor to Africa's development, and Australia's own assessment supports this. The AfDB directs resources to areas of its comparative advantage in sectors that matter to Africa, driving economic growth and reducing poverty. Using the multilateral system for delivering development assistance is an approach that has been assessed as representing value for money.

Improving aid efficiency broadly involves Australia achieving the best possible quantity and quality of inputs for the best possible price and ensuring that these inputs produce the best quantity and quality of aid outputs. The AfDB has been shown to be lean and efficient, with the QuODA study assessing value for money in the context of 'maximising efficiency' (or 'bang for the development buck'), ranking the AfDB second out of 31 bilateral and multilateral donors.

AfDB's Comparative Advantages

The most compelling comparative advantage of the AfDB Group in Africa is clearly its majority African ownership. Because of this the AfDB is better placed than any other development finance institution operating in the region to understand local and regional challenges and opportunities. Because of its African ownership, the AfDB is a trusted partner of African Governments, which often allows the AfDB to gain access 'behind closed doors', giving the AfDB a degree of credibility and authority to tackle sensitive and difficult issues.

No other development partner in Africa can match this level of access. As such, the AfDB has significant influence over Africa's future. Bilateral donors are often hampered by historical legacy, colonial and otherwise, or are perceived by Africans as primarily pushing their own domestic agendas.

The AfDB has a clear mandate and focused priorities, promoting sustainable economic growth and reducing poverty in Africa. To deliver on this it is focusing on what it does best, in particular infrastructure, private sector development and economic integration.

The AfDB prioritises its operations in sectors that matter in Africa. For example, 70.9% of the total 2010 loan and grant approvals were in infrastructure. Africa's underdeveloped infrastructure has been a major obstacle for the continent's development and its efforts to achieve a strong, sustained and shared growth, including for those in rural and marginalised settings.⁶ In a 2010 paper by the AfDB's Chief Economist, the estimated financing requirement to close Africa's infrastructure deficit was US\$93 billion annually, until 2020.⁷

According to AfDB President, Mr Donald Kaberuka, improving the AfDB's focus has enhanced effectiveness, making the AfDB more relevant to all member countries, middle income countries, low income countries and fragile states alike.⁸

The UK MAR reported that the AfDB⁹ "...has a strong strategic focus on growth, infrastructure and regional integration and unique African ownership and influence". The Centre for Global Development in 2010 gave the AfDB an 'A' - in its attempts to specialise in one sector that matters to growth, that is, infrastructure.

Congruence with Australian Aid Objectives

There is a strong congruence between the AfDB's medium term strategic direction and AusAID's current strategic focus in Africa, as well as the five strategic goals for Australia's aid program, as outlined in the Government's *Effective Aid Program for Australia*.¹⁰

Overall, the AfDB's approach also aligns well with the five strategic goals of Australia's wider aid program¹¹ through:

- support for health related MDGs ('saving lives')
- supporting the drivers of strong and more equitable growth - including through infrastructure, economic integration, private sector operations, governance and higher education ('promoting opportunities for all' and 'sustainable economic growth')
- its work in governance, fragile states and its new civil society frameworks ('effective governance' and 'promoting opportunities for all').

⁶ Volume 1 • September Issue • 2010 AfDB African Economic Brief titled "*Infrastructure Deficit and Opportunities in Africa*"

⁷ Volume 2 • Issue 1 • 2011 AfDB African Economic Brief titled "*Closing Africa's Infrastructure Gap: Innovative Financing and Risks*"

⁸ 8 April 2011 Media Release: <http://www.afdb.org/en/news-and-events/article/afdb-board-approves-decentralisation-roadmap-7896/>

⁹ The UK MAR assessed predominantly the African Development Fund, as opposed to the wider AfDB Bank Group.

¹⁰ The five strategic goals for Australia's overall aid program include: saving lives; promoting opportunities for all; investing in food security, sustainable economic growth and private sector development; supporting security, improving the quality of governance, and strengthening civil society; and preparing for and responding to disasters and humanitarian crises.

¹¹ Our five strategic goals, as outlined in *Australia's Comprehensive Aid Policy Framework to 2015-16*, include: Saving lives; Promoting Opportunities for All; Sustainable Economic Development; Effective Governance; and Humanitarian and disaster preparedness and response.

This set of objectives is also consistent with Australia's strategy for development assistance in Africa. Australia's aid program in Africa, as outlined in *Looking West: Australia's Strategic Approach to Aid in Africa 2011-2015*, aims to help reduce poverty and achieve sustainable development by supporting progress towards the Millennium Development Goals in areas where Australia can best contribute. Our program in Africa focuses specifically on program delivery in three sectors:

- 1) maternal and child health
- 2) water and sanitation
- 3) agriculture/food security.

These focus sectors align with Australia's strategic goals of saving lives and sustainable economic development.

Australia is also helping to build Africa's human resource capacity through the provision of Australian scholarships (1,005 Awards were offered to Africans in 2012) and targeted technical assistance in key areas such as agriculture, public sector reform, trade and economic policy, and natural resource management. Australia has historically provided humanitarian and technical assistance in protracted fragility and post-conflict situations such as in Somalia, South Sudan and Sudan, and the Democratic Republic of the Congo. More recently, Australia has made substantial contribution to severe food crises in the Horn of Africa and the Sahel region of West Africa.

Multilateral Engagement Strategy and Individual Multilateral Organisational Engagement Strategies

As part of the Australian Government's aid policy, *Effective Aid*, a Multilateral Engagement Strategy will be developed which will explain why multilateral organisations are important to the aid program and how funding decisions will be linked to results and value for money. It will outline Australia's major policy priorities for engagement with multilateral organisations, how these will be pursued and how success will be measured. The multilateral engagement strategy will be finalised and published by the end September 2012. Individual engagement strategies will also be developed for Australia's largest multilateral partners, including potentially the African Development Bank Group.

Annual Multilateral Performance Scorecard

As a key recommendation from the Australian Multilateral Assessment, AusAID will establish an Annual Multilateral Performance Scorecard, reporting on each of Australia's major multilateral partners every September. The Scorecard will report on results achieved for Australia's core funding and will also note major results achieved through non-core funding. Using the AMA ratings as a basis, the Scorecard will report on major developments that impact on the effectiveness of the organisation. The Scorecard will also report on the effectiveness of Australia's engagement with multilateral organisations. The headline results reported in the annual Scorecards will feed into the annual Comprehensive Aid Policy Framework reporting and budget discussions.

Mining governance and agriculture

An increasingly significant element of Australia's engagement in Africa is our expertise in the mining and agriculture sectors. Australian and AfDB expertise in these sectors can complement each other and make our investments more effective. Membership of the AfDB will make it easier to facilitate deeper technical partnerships in these two areas.

In the absence of effective financial management and macroeconomic planning which incorporates appropriate environmental standards, effective labour laws and social responsibility frameworks, mining opportunities can be missed, or will be of short term benefit and will benefit only a small proportion of society. A well-managed sector can increase government revenue flows, improve employment income, create enterprise opportunities and contribute to sustainable economic development.

By its mandate, the AfDB has a special competitive edge in the financing of mining projects through the building of local support infrastructure and large infrastructure, like railways, ports and power. AfDB efforts in the sector also include work on legislative frameworks, capacity building, raising environmental and social standards, and championing good governance and transparency in the mining industry. Australia has a lot to share in developing a holistic development approach in the sector.

Similarly Australia's expertise in agriculture would be a useful complement to AfDB investments. Australia's efforts in Africa to date include:

- boosting productivity through research, science and innovation
- improving the functioning of markets
- increasing the poor's access to financial services
- building community resilience through social protection mechanisms that enable vulnerable people to withstand natural and economic shocks, including increased food prices.

Two mutually reinforcing pillars underpin the AfDB's *Agriculture Sector Strategy 2010 – 2014: agricultural infrastructure and renewable natural resource management*. In both areas the Bank has demonstrated considerable competence and comparative advantage. For example, their agricultural infrastructure interventions will focus on areas like building and rehabilitating rural and community roads, markets and storage infrastructure. With respect to renewable natural resources (land, water, and forests), AfDB interventions will ensure the sustainability and resilience of agricultural infrastructure investments that promote climate adaptation and which protect the natural resource base.

Is becoming a member of the African Development Bank and the African Development Fund in Australia's national interest?

AfDB Membership and Australia's National Interest

Australia has important national interests in Africa and Africa's significance for Australia has increased due to economic, political and security factors, including:

- marked improvements in economic performance and governance in an increasing number of African countries are creating trade and investment opportunities for Australian business
- Africa has assumed greater geo-strategic importance as a source of minerals and energy
- Africa's numerical weight (around 27 % of membership of the UN and WTO) and growing assertiveness in multilateral forums makes support from African countries more crucial to Australia's ability to advance its global objectives on climate change, trade liberalisation, human rights, peace and security
- increasing linkages between the peoples of Australia and Africa and a growing African diaspora within Australia.

Membership of the AfDB will help advance Australia's national interest in a number of specific ways:

- we will have access to new networks through the AfDB's 77 current shareholders (including all African nations and 23 non-regional members), which we can use more effectively to support our multilateral interests, including trade liberalisation
- there will be increased business opportunities for Australians companies and institutions in AfDB procurement opportunities (as procurement is currently restricted to members only)
- the AfDB's focus on infrastructure and regional integration will also help build an improved trade platform, resulting in further business opportunities for Australians through economic growth
- membership supports Australia's role as a G20 and OECD member, and more broadly is consistent with our role supporting the global multilateral architecture and making it more effective
- it will reinforce Australia's increased policy dialogue and practical cooperation in Africa.

Membership of the AfDB would place Australia in a good position to participate in and influence Africa's development more comprehensively – achieving development outcomes not just for single countries through individual AfDB projects, but for the continent as a whole through a strong, stable, supported, respected and credible regional institution. Australia is well placed to develop a strategic, distinctive and productive partnership with the AfDB. We would expect this to encompass food security and agricultural development, the management of mineral resources, human development, support to fragile states, and the more traditional areas of collaboration around water and sanitation.

As a shareholder Australia could contribute corporately 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 performance.

Long term intent and relative advantages

Given the AfDB's legitimacy and credibility among African Governments, membership would signal Australia's intent to become a long-term partner in Africa's development. This would allow Australia to forge deeper and stronger links with African governments with Australia progressively becoming a true and trusted partner. Australia will be able to build upon the AfDB's unique position in Africa as a majority African-owned development bank to better form partnerships with African Governments.

For Australia, there are few, if any, similar alternatives to the AfDB in Africa. The AfDB and AfDF focus, at scale, on areas critical to our national interest. Other groups work in a similar or expanded space, like the World Bank or European Union (EU). However, we are already a member of the World Bank and we cannot join the EU. Just increasing project level funding will not advance Australia's interests to the same extent as membership to the AfDB would, in terms of spurring economic growth and increased trade opportunities continent wide. Nor would increasing levels of project funding be likely to help our reciprocal global agenda to the same degree. Other potential partners, including civil society groups, simply cannot operate at the scale or in the areas that the AfDB works.

Business Opportunities

Each year the AfDB provides financing of a significant magnitude to countries in Africa through vehicles like the AfDF. Recipient countries use these funds to procure goods, works and services to implement projects. Members of the AfDB are eligible to bid for such work.

The Bank seeks to use open and transparent competitive procedures for procurement of goods, works and services with the stated objective of giving fair and equal opportunity to contractors, suppliers and consultants from the Bank's member countries.

According to the AfDB's Procurement and Fiduciary Department, during 2010 some 2,261 contracts, worth approximately US\$1.95 billion, were awarded to businesses from regional and non-regional members for goods, works and services. The total value of contracts in preceding years ranged from US\$4.3 billion in 2007 to US\$2.03 billion in 2009. In 2010, non-regional member countries won 69 per cent of goods contracts (665 contracts), 67 per cent of works contracts (1,012 contracts) and 39 per cent of services contracts (566).

Procurement is currently restricted to members only. If Australia becomes a member, Australian firms will be able to bid for AfDB work in all 54 African member nations, working alongside African governments, businesses and local communities. Australians will be helping Africans as they strive for sustainable economic growth and to reduce poverty. The 2006-2011 annual average total of contracts awarded by the AfDB was close to US\$2 billion.

Australian businesses are already large players in Africa, particularly in the resources sector. As at September 2011 there are more than 230 Australian resource companies with more than 650 projects spread across 43 African countries and territories, with current investment of US\$24 billion.

Business Enabling Environment

Membership of the AfDB would support an organisation with a mandate to spur economic growth, in turn helping build a platform for greater Africa-Australia trade. Building necessary infrastructure networks in transport, energy and telecommunications is critical to driving economic growth, through making it easier to do business – for example by increasing access to markets. The AfDB also works to assist African governments improve enabling environments for the private sector through 'soft infrastructure' like improved regulatory and legal frameworks, financial sector and trade liberalisation, improved access to banking services and streamlined national competition policies.

Further, being a member will also enable Australia to influence policies and directions at Board level that support an improved business enabling environment, and which spur economic growth across Africa. This supports Australia's Africa strategy to increase efforts to expand trade and investment.

Increasing Stability in Africa

Instability will continue to grow and people will continue to seek refuge from violence and economic hardship, unless we can help create opportunities for people to lift themselves out of grinding poverty. AfDB membership supports the improvement of Africa's economic climate and increases opportunities, including through private sector development. Further, through the Fragile States Facility, the AfDB provides effective assistance to fragile states in transition from fragility. This Facility aims to support at-risk countries in their effort to prevent slippages and to assist countries progressing from post-crisis and post-conflict to promote political stability and economic development.

Increased Development Assistance

Australia's Africa Strategy guides Australia's increased and targeted development assistance and humanitarian program to Africa. The Strategy focuses primarily on the Millennium Development Goals (MDGs). Membership means supporting an organisation that directly works towards achievement of the MDGs, for example through work in water and sanitation. In addition, the AfDB is tailored to help its regional member countries achieve strong, sustained and shared growth in order to reach the MDGs, and in the process, generate higher domestic resources. Membership will also provide additional resources to the AfDB, and allow them to borrow more funding on capital markets with which to assist their regional member countries.

Membership will therefore provide an effective way to leverage more resources to deliver more aid in a more diverse range of sectors and countries, thereby increasing the impact and reach of Australia's aid funding.

AfDB and AfDF Membership Processes

There are essentially two main steps for a non-regional country to become an active member of the AfDB Group:

- first, through payment of an initial subscription, Australia would become a state participant in the African Development Fund (AfDF)
- second, through an initial subscription of capital stock, Australia would then become a member of the African Development Bank (AfDB).

Contribution rates for the initial subscriptions to both the AfDF and the AfDB are based on Australia's International Monetary Fund (IMF) quota¹² relative to other AfDB Group non-regional members. Finances will be determined over the coming year and will be subject to final Government decisions.

Should Australia become a member of the AfDB, Australia would also be expected to contribute to the on-going replenishment cycles of the AfDF (currently every three years) as well as to any future General Capital Increases.

¹² Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. Australia's current quota is 1.36%.

Annex A: Extract from Executive Summary of the AfDB's Annual Development Effectiveness Review (2012)

Development Effectiveness

Africa is making progress on a broad range of development frontiers. Poverty rates are falling, the private-sector environment is improving rapidly, trade is expanding, and more and more people are becoming connected—to roads, electricity, information technology, water and sanitation. Education and health are making steady progress and the number of fragile states has declined. However, Africa's growth is often concentrated in a few sectors and areas, benefiting only part of the population. We need to change the quality of growth, to create more and better jobs and economic opportunities and lift more Africans out of poverty.

One worrying sign is the rise of inequality. While economic growth has lifted many households out of poverty and the number of middle-income households is increasing, inequality in Africa is still high and growing. Africa's Gini index—a measure of income inequality—has widened over the past six years, as it has in other developing regions, and is hardly better than it was in 1980. As a result, not everyone benefits from growth. Many are left behind. Inclusiveness in Africa has several dimensions: geographical (e.g. rural poor); social (e.g. gender); and economic (e.g. unemployment). Recent political upheavals in North Africa have highlighted the plight of Africa's youth. Despite rapid expansion in education across the continent, young people remain largely excluded from the formal economy, creating a clash between expectations and reality that may pose a challenge to social and political stability.

Africa still has some way to go to improve its infrastructure. A fifth of Africans live in small, scattered communities, where the costs of providing infrastructure can be prohibitive. Less than half of the rural population has access to all-season roads and the rural electrification rate stands at only 10%. Even in urban centres, population growth has outstripped infrastructure development, and basic services are twice as expensive as in other developing regions. Progress on improving water and sanitation has been slow. In sub-Saharan Africa, only 57% of the population has access to an improved water source and only 28% to improved sanitation facilities—an improvement of just 1% on both figures. However, Africans are becoming much better connected to information and communications infrastructure. Mobile telephony will reach 735 million subscribers by the end of 2012, which is helping to promote financial inclusion through mobile banking.

With two-thirds of its population under 25, Africa is the youngest continent in the world. By 2050, almost 400 million Africans will be between 15 and 24 years of age. If the energy and creativity of young Africans can be harnessed, this may prove to be Africa's greatest asset. But the challenge is urgent. The 'youth bulge' is already generating increasing demands for economic opportunities and political voice. If these demands cannot be met, they could become a source of social and political instability.

Human development is the key to unlocking this potential. Over the course of a decade, primary enrolment rates in sub-Saharan Africa have increased from 58% to 76%, while primary completion rates reached 67% in 2011. While health outcomes have been gradually improving, the heavy burden of disease on Africa's poor continues to be a major source of exclusion. African women and girls face a range of additional barriers to their participation in economic and social life. While gender parity has improved in primary school, there has been little progress at secondary and tertiary levels, and access to formal employment has not improved.

Around the world, countries that are better governed also tend to have less inequality. Africa continues to perform poorly on standard governance indicators, scoring 30% lower than the Asian average and 60% lower than industrialised countries. But the picture is by no means static. The unprecedented economic growth that Africa has enjoyed over the past decade has been in large part a result of improvements in some basic governance areas, including macroeconomic management, business regulation and revenue collection.

Conflict and political fragility remain serious constraints on Africa's development. Overall, the level of conflict and fragility has declined in recent years. However, a third of African states—home to over 200 million people—is still classed as fragile. With 50% higher rates of malnutrition, 20% higher child mortality rates and 18% lower primary completion rates, they lag behind on almost all development indicators. No fragile state has yet achieved even a single Millennium Development Goal.

Overall, there are good reasons to be optimistic about Africa's economic prospects. The rise of China and other emerging economies, strong commodity prices, a burgeoning African middle class and the continent's growing appeal to private investors all suggest that the strong growth performance of recent years is likely to continue. Without this growth, sustained poverty reduction would not be possible. Yet it is also clear that the nature of growth in Africa needs to become more inclusive, to provide more opportunities for a wider cross-section of society.

How well AfDB manages its operations

To achieve our ambitious goals, we need to ensure that our operations are well managed. To that end, we have introduced new ‘Quality-at-entry’ procedures to ensure that our projects are technically sound and designed to maximise development impact. Our Project Appraisal Reports are increasingly well prepared, leading to fewer problems with implementation. The quality of environmental and social safeguards in our operations has improved notably. Our Environmental and Social Impact Assessments provide beneficiary communities and other stakeholders the opportunity to contribute to project design.

At the end of 2011, the Bank’s portfolio consisted of 769 operations with a combined value of \$34 billion. As our portfolio has expanded, we have been cutting down on smaller and underperforming operations while becoming more selective in our investments. As a result, the number of public-sector operations has declined over the past year while their average size has increased. We have improved the level of supervision of our operations, with the level of problem projects declining to under 5%.

We include a number of indicators from the Paris Declaration on Aid Effectiveness in our Results Measurement Framework. We have made cautious progress on our use of country systems, as this depends on the rate of progress in bringing them up to international standards. We have made much faster progress in reducing parallel project implementation units. The Bank also helped ensure that African views were voiced at the Fourth High-Level Forum in Busan, leading to some important shifts in the international aid policy agenda.

Our knowledge management is improving over time, with the quality and timeliness of Project Completion Reports reaching their targets, and we have made good progress on ‘climateproofing’ our operations. However, gender mainstreaming is an area where we need to do more. Reviews have indicated weaknesses in the way gender objectives are incorporated into project designs. We are therefore focusing on this area in our Quality-at-entry process.

How efficient AfDB is as an organisation

The Bank is a large and complex structure, with 1900 staff located across the continent. We need to keep our business processes lean and flexible, while meeting exacting fiduciary standards. And we need to provide the management and technical resources to ensure consistently good results across a decentralised organisation.

We are moving forward on decentralisation, devolving staff and responsibilities to field offices to enable us to form stronger partnerships with our member countries. In 2011, we expanded our field presence to Burundi, Liberia, Togo and the Central African Republic, with a new field office to open in South Sudan in 2012. This brings us to a total of 31 field offices, with nearly a third of our professional staff at country level. A fifth of our project tasks are now managed from the field and this is set to increase substantially in 2012. Our field offices are supported by an increasingly effective information and communications infrastructure.

We are pressing forward with a whole range of measures to improve our business processes and practices. A major achievement of 2011 has been improvements to the speed and quality of our procurement processes, leading to a reduction of a third in the time required for bidding processes.

Human resource management remains one of our challenges. Both our premature attrition rate—staff leaving before completion of their first contract, as a share of total departures—and our vacancy ratio, which stands at 15%, fall short of meeting our ambitious targets. To help with staff retention, we have introduced a range of financial and non-financial benefits, while introducing new career structures and management practices. We have also enhanced our recruitment processes, including placing a stronger focus on younger professionals and women.

Finally, we fully endorse the current move towards greater transparency in development assistance and have committed ourselves to meeting the International Aid Transparency Initiative standards for publication of aid data.