



DFID's Oversight of the UK Contribution to the Asian Development Bank

Terms of Reference

1. Introduction

1.1 The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

1.2 We have decided to review the effectiveness of the Department for International Development's (DFID's) oversight of the UK contribution to the Asian Development Bank (ADB). These Terms of Reference outline the purpose and nature of the review and identify its main themes. A detailed methodology will be developed during an inception phase.

2. Background

2.1 In our work plan, we stated that we would initiate a review of a regional development bank in our first year. DFID's largest core contributions to regional development banks are to the African Development Bank (£139 million in 2010-11) and ADB (£43 million in 2010-11). In addition to this core funding, DFID uses these organisations to administer programmes as part of its bilateral aid expenditure.

2.2 We have decided to examine DFID's engagement with ADB because:

- a number of other reviews are being carried out on the African Development Bank; and
- ADB, while it receives a significant amount of UK funding, has a lower UK public profile so evaluating it is in line with our criteria for selecting reports of materiality and coverage.

ADB's vision and strategy

2.3 ADB is a major provider of development finance across Asia and the Pacific, focussing on basic infrastructure (transport, energy and water), private sector development and regional integration. It has 40 recipient members and 27 donor members, of which 19 are from outside the Asia-Pacific region. It has an average lending of \$16 billion per year for the last five years, of which \$3 billion is concessional loans and grants to the poorest countries provided through the Asian Development Fund (ADF).

2.4 ADB's vision is 'an Asia and Pacific region free of poverty' and its mission is 'to help developing member countries reduce poverty and improve living conditions and quality of life'.¹ Its development agenda is to concentrate on inclusive and environmentally sustainable economic growth and regional integration.

2.5 ADB's long-term strategy is described in *Strategy 2020*.² This states that 80% of ADB's annual funding approvals in 2012 will be in five core areas of operations, namely: infrastructure, environment, regional co-operation and integration, finance sector development and education. It is planned that, by 2020, support for private sector operations in all of these areas will have increased to a half of ADB's operations.

The UK and other donors

2.6 The UK is the fourteenth-largest shareholder in ADB with 1.93% of the voting power. Japan and the USA are the largest shareholders and contributors, each with 12.78% of the voting power.

2.7 ADB members agreed a 200% general capital increase in 2009. The UK supported this, subscribing to additional shares worth US\$1.74 billion, of which US\$70 million is being paid over five years from 2009 and US\$1.67 billion is 'callable capital' (that is, none is paid unless it is called by ABD to meet its obligations).

2.8 In addition, the UK provided 5% of the contributions, or £116 million, to the ninth replenishment of ADF (called ADFX³), covering the four years from January 2009 to December 2012. The largest contributors to this replenishment were Japan (providing 35% of the total contribution), the United States, Australia, Canada, Germany, the UK and France. The UK contribution to the tenth replenishment (called ADFXI) starting in January 2013, is currently being negotiated. The final meeting of the ADFXI replenishment negotiations is in March 2012 when the priorities and funding arrangements will be agreed, subject to formal approvals by the governments concerned.

2.9 ADB is governed by the Board of Governors, which meets once a year at the Annual Meeting and delegates its authority to the Board of Directors. The UK Governor is the Secretary of State for International Development. The Board of Directors has a president and 12 executive directors. The UK shares a constituency on the Board of Directors with Germany, Austria, Luxembourg and Turkey. The position of executive director rotates between Germany and the UK, with the UK being executive director for one in every four years. The current executive director is from Germany and the next UK executive director will take office in mid-2014.

¹ *Strategy 2020, The Long-Term Strategic Framework of the Asian Development Bank*, ADB, April 2008, <http://beta.adb.org/sites/default/files/Strategy2020-print.pdf>.

² *Strategy 2020, The Long-Term Strategic Framework of the Asian Development Bank*, ADB, April 2008, <http://beta.adb.org/sites/default/files/Strategy2020-print.pdf>.

³ ADFI was the original contribution and there have since been nine replenishments.

ADB recipients

2.10 ADB provides different support to its 40 recipient countries depending on their status:

- 9 of its recipients are **middle-income countries** entitled to ordinary capital resources (OCR) loans. ADB raises funds for this by issuing bonds on the capital markets. It is, therefore, able to offer these loans at concessional rates reflecting its borrowing costs;
- 16 of its recipients are **low-income countries** entitled to ADF loans and grants. The recipients include seven fragile and conflict-affected states, namely Afghanistan, Kiribati, the Marshall Islands, Micronesia, Myanmar, the Solomon Islands and Timor Leste;⁴ and
- the remaining 15 '**blend countries**' are entitled to both OCR and ADF support.

2.11 In 2010, funding approvals totalled US\$17.5 billion and the make up of this investment lending is shown in Table 1. The top recipient countries in 2010 were Bangladesh, India and China, receiving 42% of total approvals (US\$ 7.3 billion). Most of the loans are made to sovereign governments but ADB also co-finances investments with the private sector.

Table 1: Types of lending by the Asian Development Bank, 2010⁵

Type of Lending	Recipient	Amount Approved (US\$ billion)	Portfolio Composition	
			Loans (%)	Grants (%)
Ordinary Capital Resources	Sovereign	10.5	100	0
Co-financing	Private Sector	3.7	100	0
Asian Development Fund	Sovereign	3.3	67	33
Other special funds	Sovereign	0.04	0	100
Total		17.5	93	7

2.12 In terms of cumulative ADB assistance up to the end of 2010:

- China, Indonesia, Pakistan and India were the largest borrowers overall, with lending to these countries representing 57% of all cumulative loans approved by ADB (a total of US\$ 96 billion out of US\$ 167 billion); and
- Afghanistan, Nepal, Lao People's Democratic Republic and Indonesia had received the greatest amount of grant funding, having been awarded 59% of cumulative grants approved (US\$ 2.6 billion out of US\$ 4.4 billion).⁶

2.13 Following rationalisation of its country office network, DFID will have country offices in eight of ADB's 40 recipient countries. These 'focus countries' were agreed

⁴ Fragile and conflict-affected situations are as defined by the World Bank for 2012. See http://siteresources.worldbank.org/INTLICUS/Resources/FCS_FY12_External_List.pdf.

⁵ ADB Annual Report 2010, Volume 2 Financial Report (Statistical Annex 1), ADB, April 2011, <http://beta.adb.org/sites/default/files/adb-ar2010-v2.pdf> (OCR loan guarantees and equity investments are shown as loans; co-financing of technical assistance is shown as loans; ADF includes the Technical Assistance Special Fund).

⁶ ADB Annual Report 2010, Volume 2 Financial Report (Statistical Annexes 14 and 15), ADB, April 2011, <http://beta.adb.org/sites/default/files/adb-ar2010-v2.pdf>.

in the *2011 Bilateral Aid Review* and are: Afghanistan, Bangladesh, India, Kyrgyzstan, Myanmar, Nepal, Pakistan and Tajikistan. According to the *Bilateral Aid Review*, the most difficult of these environments for delivering aid are Kyrgyzstan and Tajikistan.

ADB special funds and trust funds

2.14 In addition to OCR development lending, ADB provides concessional lending, grants and technical assistance through several special funds. These funds are accounted for and used separately and include:⁷

- ADF (the largest)
- Technical Assistance Special Fund
- Japan Special Fund
- ADB Institute
- Asian Tsunami Fund
- Pakistan Earthquake Fund
- Regional Co-operation & Integration Fund
- Climate Change Fund
- Asian Pacific Disaster Response Fund.

2.15 DFID does not contribute directly to any of these special funds, other than to ADF and to the Technical Assistance Special Fund (TASF), which is funded through an agreed percentage of ADF replenishments. TASF is monitored and managed as a part of ADF by ADB and donors.

2.16 There are also 37 trust funds managed by the Bank. DFID is currently involved in only two multi-donor trust funds, concerning infrastructure in Afghanistan and energy in India, where its total contribution since 2009 has been £49 million (or US\$ 78 million⁸).

Project co-financing

2.17 DFID co-finances projects with ADB, contributing US\$ 316 million over the last five years (January 2007 to December 2011). Of this, it contributed US\$ 214 million in the 2010-11 financial year, of which US\$190 million was granted to the Bangladesh Third Primary Education Development project.

2.18 Over the same five year period, DFID contributed US\$26 million as grants to technical assistance projects that were co-financed with ADB. The largest contributions went to projects in Pakistan and Vietnam, as well as to a number of regional projects. No contributions were made in 2011.

2.19 As with the other multilateral organisations to which it contributes, DFID relies on ADB's evaluation function (the Independent Evaluation Department) to assess the effectiveness of the spending that ADB undertakes on behalf of the UK taxpayer.

3. Purpose of this review

3.1 To assess the effectiveness of DFID's engagement with the Asian Development Bank, in order to maximise impact for the intended beneficiaries and value for money for the UK taxpayer.

⁷ *ADB Financial Profile 2011*, ADB, April 2011, <http://beta.adb.org/sites/default/files/pub/2011/financialprofile2011.pdf>.

⁸ The UK contribution was made in sterling. The conversion to US\$ was provided through DFID by ADB.

4. Relationship to other evaluations/studies

4.1 DFID's *Multilateral Aid Review* (MAR), published in March 2011, provides a useful context for the current review as it considered ADF. The MAR assessed ADF as being 'strong' on both its contribution to UK development objectives and its organisational strengths.

4.2 The MAR stated that 'ADF plays a critical role contributing to international and UK development objectives. It has a clear strategic vision which supports a focus on results. Performance could be improved by ensuring that its projects have a greater impact on the poorest communities and on addressing the needs of girls.'⁹

4.3 The main weaknesses identified by the MAR are set out in Table 2.

Table 2: Main weaknesses of the Asian Development Fund as identified by the UK Multilateral Aid Review, 2011

Indicator	Weaknesses
Contribution to UK development objectives (assessed as 'strong')	<ul style="list-style-type: none">- Sometimes limited collaboration with other donors- Limited role in health and activities directly addressing Millennium Development Goals- Good policy and evaluations on gender equality but limited evidence of impact
Organisational strengths (assessed as 'strong')	<ul style="list-style-type: none">- No evidence of emphasis on securing cost effectiveness in the design of development projects- Weaknesses in HR policies and practices are being tackled but more needs to be done- Very limited in-country reallocation possible

4.4 DFID is a member of the Multilateral Organisation Performance Assessment Network (MOPAN), which carried out a review of ADB in 2010.¹⁰ The review recognised that ADB has been implementing a number of reforms to improve effectiveness, achieving progress in 'making transparent and predictable aid allocation decisions, presenting information on performance and in monitoring external results'. The report noted that donors in-country were generally less positive about ADB's organisational effectiveness than donors at headquarters or client governments.

4.5 MOPAN identified several main areas where greater attention is required from ADB:

⁹ *Multilateral Aid Review*. DFID, March 2011 (pages 81 and 165),

http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf.

¹⁰ *MOPAN Common Approach, Asian Development Bank, 2010*, Multilateral Organisation Performance Network, January 2011, http://www.mopanonline.org/upload/documents/ADB_Final-Vol-I_January_17_Issued1.pdf.

- linking its aid management to performance in its budgeting and financial reporting;
- managing human resources, in particular ensuring transparent and meritocratic recruitment and retention of staff;
- more effectively implementing its commitments to gender equality as a cross-cutting thematic priority; and
- ensuring that the length of time for procedures does not affect project or programme implementation.

4.6 We will draw on other relevant reviews of ADB in addition to the MOPAN review. The Australian Government's aid department (AUSAID) is expecting to publish the findings of its own multilateral aid assessment in early 2012, including a review of ADB; we will draw on this information if it is available in time.

5. Analytical approach

5.1 Our review will respect DFID's shareholder arrangements with ADB. This is, therefore, a review of DFID's engagement with ADB and not of ADB's own performance.

5.2 Our review will consider all of DFID's funding of ADB, including ADF, trust funds and co-financed projects. We will consider the following in detail:

- the ways of working between DFID, ADB and other agencies at country level, including recipient governments;
- the information which DFID receives and the assurances that it seeks about the cost-effectiveness and impact of ADB activities;
- the use made by DFID of work by ADB's Independent Evaluation Department; and
- the approach adopted to co-financing, including with the private sector.

5.3 We will provide a brief overview of the Bank's activities including its governance, organisation, strategy, funding mechanisms and approaches to performance reporting and evaluation. Our analytical approach will balance both corporate and country perspectives:

- **Corporate level:** we will consider DFID's oversight of ADB at the corporate level, including an assessment of DFID's influence on ADB's internal reform programme and its use of performance information and evaluations provided by ADB; and
- **Country level:** we will consider DFID's engagement with the management and co-ordination of projects at a country level using a sample of current and recently completed projects as case studies.

6. Indicative questions

6.1 This review will use as its basis the standard ICAI guiding criteria and evaluation framework, which are focussed on four areas: objectives, delivery, impact and learning. The questions outlined below comprise those questions in our standard evaluation framework which are of particular interest in this review, as well as other pertinent questions we want to investigate. The full, finalised list of questions that we will consider in this review will be set out in the inception report.

6.2 Objectives

6.2.1 How does DFID set its priorities and objectives for engaging with ADB and for negotiating ADF replenishments?

6.2.2 How does DFID use the ADB Board and its key relationships at a senior level to influence the priorities of ADB?

6.2.3 How does DFID work with ADB and other donors at country level to ensure that their aid programmes meet recipient government needs and are co-ordinated effectively?

6.2.4 How does DFID work with ADB and the recipient government at country level to ensure that the country strategy is appropriate and that projects and programmes meet country needs?

6.3 Delivery

6.3.1 How does DFID obtain assurance that ADB allows for appropriate voice and participation by recipient governments and communities?

6.3.2 How does DFID obtain assurance that ADB policies, procedures and systems provide adequate financial control and institutional integrity in the disbursement of funds?

6.3.3 How does the status of the client, whether it is a sovereign government or a private sector organisation, affect ADB's approach to lending and DFID's approach to oversight?

6.3.4 How does DFID obtain assurance that ADB's service delivery is cost-effective and that project designs are cost-effective and implementation is timely?

6.3.5 How does DFID work with ADB, delivery partners and the recipient government at country level to ensure that the risks of ADB projects are mitigated and issues addressed?

6.3.6 How does DFID use information obtained about ADB performance and spending to address issues and improve the performance of ADB and its projects?

6.4 Impact

6.4.1 How useful are ADB's ADF Results Framework and Performance Scorecard to enable DFID to track overall value for money and effectiveness? How does DFID use these products?

6.4.2 What evidence exists of active engagement and assessment by the UK at ADB Board level about the cost-effectiveness and impact of Bank expenditure?

6.4.3 What is the quality of ADB's Independent Evaluation Department? How does DFID use its work to ensure that projects deliver the planned development outcomes and that ADB's long-term performance improves?

6.5 Learning

6.5.1 How does DFID use views and information from DFID country offices and other parts of UK Government to inform its understanding of ADB performance?

6.5.2 How has DFID learned from its experience of working with ADB and other multilateral institutions to improve ADB's effectiveness and value for money?

6.5.3 What does DFID see as the major concerns in respect of how its money is being spent by ADB and the obstacles to further improvement?

6.5.4 What has DFID learnt from previous engagements with ADB, including at replenishments, and how has it applied these?

7. Outline methodology

7.1 The review will include a number of case studies of projects, which will be selected at the inception phase. Given ADB's future focus, set out in *Strategy 2020*, the projects chosen for review could include those involving infrastructure developments and co-financing with the private sector. Given the weaknesses identified by the UK MAR and MOPAN, we could also include projects with an emphasis on gender. We will cover projects funded through ADF, trust funds and OCR. The case study projects may be chosen from countries where engagement is conducted by DFID (either in-country or from London) or by other parts of the UK Government. We propose to carry out these case studies as a mixture of country visits and telephone interviews.

7.2 The review will involve relevant document review, including:

- **Public documents:** these will focus on ADB's objectives, priorities, organisation, funding and performance. These will be obtained through the ADB and DFID websites where there is a considerable amount of information as part of both organisations' commitments to transparency. We will also draw on work by MOPAN; and
- **Internal ADB and DFID documents:** from ADB, these will include information and reports from Board, management and operational levels as well as from the Independent Evaluation Department. From DFID, these will include key ADFX and ADFXI replenishment papers and monitoring information.

7.3 The review will also involve interviews with:

- key staff in DFID headquarters about their relationship with ADB and their involvement in setting priorities, negotiating funding commitments, monitoring performance and assuring key systems and processes;
- relevant senior managers in ADB headquarters about the processes used by ADB to set overall priorities and funding requirements, determine country strategies, design and finance projects, monitor performance and evaluate impact;

- DFID (and, where appropriate, other UK Government) staff in country offices and their local ADB counterparts, about the ways in which they work together and with other donors and the recipient government, on developing the country strategy, designing projects, monitoring performance and addressing risks and issues; and
- civil society organisations in the countries we visit about ADB's effectiveness and areas for improvement.

8. Timing and deliverables

8.1 The review will be overseen by Commissioners and be implemented by a small team from ICAI's consortium. DFID will facilitate information-gathering and meetings with ADB staff as required. The review will start in February 2012, with a final report available during the third quarter of 2012.