

**Independent Commission for Aid Impact (ICAI)**  
**DFID's Oversight of the UK Contribution to the Asian Development Bank**  
**Inception Report**

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## 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). This inception report sets out the evaluation questions, methodology and a work plan for the delivery of the review. The methodology and work plan are flexible enough to allow for new issues and questions that emerge over the course of the review.

## 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
  - while ADB receives a significant amount of UK funding from multilateral and bilateral channels, it 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 US\$16 billion per year for the last five years, of which US\$3 billion comprises 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'.<sup>1</sup> 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 its *Strategy 2020* document.<sup>2</sup> 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 development and operations in all operational areas will have increased to a half of ADB's operations.

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<sup>1</sup> *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>.

<sup>2</sup> *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>.

### *The UK and other donors*

- 2.6. The UK is the fourteenth-largest shareholder in ADB with 1.94% of the voting power. Japan and the USA are the largest shareholders and contributors, each with 12.82% of the voting power as of 31 December 2011.
- 2.7. ADB members agreed a 200% general capital increase in 2009. The UK supported this, subscribing to additional shares worth US\$2.2 billion.<sup>3</sup> The additional paid-in shares are valued at US\$70 million,<sup>4</sup> which is being paid over five years from 2009. The remaining US\$2.1 billion<sup>5</sup> is 'callable capital' (that is, none is paid unless it is called by ADB 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 ADFX<sup>6</sup>), 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 indicated to contribute £200 million to the tenth replenishment (called ADFXI), covering January 2013-December 2016. The ADF XI replenishment process was concluded in April 2012. The ADF XI donors' report and draft resolutions were sent to all donors for approval to enable the start of the implementation in January 2013.
- 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 comprises 12 executive directors and is chaired by the President. 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: the UK takes the role for one in every four years, with Germany holding it for the other three years. This broadly reflects the relative shareholdings of the UK (2.05%) and Germany (4.34%), as well as the allocation of other roles in the director's office. The current executive director is from Germany and the next UK executive director will take office in mid-2014.

### *ADB recipients*

- 2.10. ADB provides different support to its 40 recipient countries depending on their status:
- nine 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;
  - sixteen 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;<sup>7</sup> 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 on page 4. 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.

<sup>3</sup> Valued at 10,000 Special Drawing Rights (SDR) per share at US\$1.53527 per SDR as of 31 December 2011.

<sup>4</sup> Based on the UK's chosen payment option of US\$12,063.50 per share.

<sup>5</sup> Valued in ADB's books at SDR10,000 per share at US\$1.53527 per SDR as of 31 December 2011.

<sup>6</sup> ADFI was the original contribution and there have since been nine replenishments.

<sup>7</sup> 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](http://siteresources.worldbank.org/INTLICUS/Resources/FCS_FY12_External_List.pdf).

**Table 1: Types of lending by the Asian Development Bank, 2010<sup>8</sup>**

Type of Lending	Recipient	Amount Approved (US\$ billion)	Portfolio Composition	
			Loans (%)	Grants (%)
Ordinary Capital Resources	Sovereign	10.5	100	0
Co-financing	Sovereign and Private Sector	3.7	92	8
Asian Development Fund	Sovereign	3.3	67	33
Other special funds	Sovereign	0.04	0	100
Total		17.54	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).<sup>9</sup>

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 in the *2011 Bilateral Aid Review* (BAR) and are: Afghanistan, Bangladesh, India, Kyrgyz Republic, Myanmar, Nepal, Pakistan and Tajikistan. According to the BAR, 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:<sup>10</sup>

- ADF (the largest);
- Technical Assistance Special Fund;
- Japan Special Fund;
- ADB Institute Special Fund;
- Asian Pacific Disaster Response Fund;
- Asian Tsunami Fund;
- Pakistan Earthquake Fund;
- Regional Co-operation & Integration Fund; and
- Climate Change 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 36 trust funds managed by the Bank. DFID is currently involved in only two trust funds, concerning infrastructure in Afghanistan and energy in India, where its total contribution since 2009 has been £49 million (or US\$ 78 million<sup>11</sup>).

#### *Project co-financing*

2.17. DFID co-finances projects with ADB, contributing US\$ 239 million<sup>12</sup> over the last five years (January 2007 to December 2011). Of this, it contributed US\$ 214 million in the 2010-11 financial

<sup>8</sup> 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).

<sup>9</sup> 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>.

<sup>10</sup> ADB Financial Profile 2011, ADB, April 2011, <http://beta.adb.org/sites/default/files/pub/2011/financialprofile2011.pdf>.

<sup>11</sup> The UK contribution was made in sterling. The conversion to US\$ was provided through DFID by ADB.

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\$42 million as grants to technical assistance projects that were co-financed with ADB, some of which were funded under the energy trust fund in India. The largest contributions went to projects in India, 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 (IED)) 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.

### 4. Relationships to other initiatives and evaluations

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.'<sup>13</sup>

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 overall as 'strong')	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 overall as 'strong')	No evidence of emphasis on securing cost effectiveness in the design of development projects Weaknesses in human resource 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.<sup>14</sup> 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

<sup>12</sup> Official DVA co-financing.

<sup>13</sup> *Multilateral Aid Review*. DFID, March 2011, pages 81 and 165, [http://www.dfid.gov.uk/Documents/publications1/mar/multilateral\\_aid\\_review.pdf](http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf).

<sup>14</sup> *MOPAN Common Approach, Asian Development Bank, 2010*, Multilateral Organisation Performance Assessment Network, January 2011, [http://www.mopanonline.org/upload/documents/ADB\\_Final-Vol-I\\_January\\_17\\_Issued1.pdf](http://www.mopanonline.org/upload/documents/ADB_Final-Vol-I_January_17_Issued1.pdf).

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:

- 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. Methodology

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 a review 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 eight to ten current and recently completed projects as case studies.

5.4. The review will include UK-based work, a visit to ADB headquarters in the Philippines, visits to DFID and ADB offices in one country where DFID is actively involved and telephone interviews with DFID project managers and their ADB counterparts in a number of other countries where DFID is contributing to ADB trust funds or co-financing ADB programmes. The review will draw conclusions and derive lessons specifically for DFID's future relationship with ADB, as well as potentially with other multilateral development institutions.

## Evaluation Framework

5.5. The evaluation framework for this review is set out in the table below. This has as its basis the standard ICAI guiding criteria and evaluation framework, which are focussed on four areas: objectives, delivery, impact and learning. It also incorporates other pertinent questions we want to investigate in this review. The questions which are highlighted in bold are those, including from the Terms of Reference (ToR), on which we will focus in particular.

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
<b>Objectives: what is the programme trying to achieve?</b>			
Does the programme have clear, relevant, realistic objectives that focus on the desired impact? (1.1)	<p><b>How does DFID set its priorities and objectives for engaging with ADB and for negotiating ADF replenishments? (ToR 6.2.1)</b></p> <p><b>How does DFID use the ADB Board and its key relationships at a senior level to influence the priorities of ADB? (ToR 6.2.2)</b></p> <p>What are DFID's overall desired outcomes from its engagement with ADB?</p>	<ul style="list-style-type: none"> <li>• Evidence that DFID has specific, quantified priorities for engagement with ADB, including for the ADFXI replenishment</li> <li>• Evidence of DFID influencing ADB priorities (e.g. policy papers, Board speaking notes)</li> <li>• Evidence of interaction between DFID and the ADB Board, including policy papers and briefings supplied to the Board</li> </ul>	<ul style="list-style-type: none"> <li>• UK aid strategy papers</li> <li>• ADB strategy papers (e.g. <i>Strategy 2020</i>)</li> <li>• ADFX and ADFXI negotiating strategies and ADFX programme memorandum (ADFXI business case may not be available)</li> <li>• Routine communications between DFID and ADB Board</li> <li>• Interviews with DFID and ADB staff in headquarters (HQ)</li> <li>• Interviews with UK representation on the ADB board</li> </ul>
Is there a clear and convincing plan, with evidence and assumptions, to show how the programme will work? (1.2)	<p>How did DFID plan and prepare for the ADFXI replenishment negotiations?</p> <p>How does DFID plan its engagement with ADB year-by-year?</p>	<ul style="list-style-type: none"> <li>• Evidence that DFID has a specific negotiating strategy and plan reflecting an agreed UK position for the replenishment</li> <li>• Clear priorities for engagement with ADB and for ADF replenishments, that take into account the needs of intended beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• ADFX and ADFXI negotiating strategies and plans</li> <li>• DFID International Financial Institutions Department (IFID) work plan</li> <li>• Communications between DFID and UK ADB representation during the replenishment</li> <li>• Interviews with DFID staff and UK representatives at ADB HQ</li> <li>• Interviews with HM Treasury staff</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
Does the programme complement the efforts of government and other aid providers and avoid duplication? (1.3)	<b>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? (ToR 6.2.3)</b>	<ul style="list-style-type: none"> <li>• Evidence that DFID has a country strategy for its aid programme</li> <li>• DFID engagement with other donors at HQ and country levels to co-ordinate aid programmes</li> <li>• DFID engagement with stakeholders and civil society, feeding this into its formal board positions</li> <li>• DFID country offices engagement with the UK representation at ADB</li> </ul>	<ul style="list-style-type: none"> <li>• MAR and BAR reports</li> <li>• DFID strategy papers and budgets (2011-12, 2012-13)</li> <li>• Interviews with DFID HQ staff</li> <li>• Interviews with DFID and ADB staff at country level</li> <li>• Interviews with relevant civil society organisations</li> </ul>
Are the programme's objectives appropriate to the political, economic, social and environmental context? (1.4)	<b>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? (ToR 6.2.4)</b>	<ul style="list-style-type: none"> <li>• DFID engagement with ADB at country level and recipient government on aid strategy and priorities</li> <li>• Use of independent assessments by DFID (e.g. MOPAN, IED)</li> <li>• Evidence that DFID commissions independent assessments on ADB-related issues</li> </ul>	<ul style="list-style-type: none"> <li>• Country strategy planning process including approach to review</li> <li>• Recent, relevant IED reports</li> <li>• Interviews with DFID and ADB field staff in-country</li> <li>• Interviews with IED</li> <li>• Other commissioned independent reports</li> </ul>



Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
<b>Delivery: is the delivery chain designed and managed so as to be fit for purpose?</b>			
Is the choice of funding and delivery options appropriate? (2.1)	<p>On what basis does DFID allocate funding to ADB and ADF from the multilateral and bilateral aid budgets?</p> <p>How does DFID use the ADB Board and its key relationships at a senior level to assess and, if necessary, challenge how its money is spent?</p>	<ul style="list-style-type: none"> <li>• Evidence that DFID has a clear analytical framework underpinning its decisions on aid allocations to ADB</li> <li>• Evidence that DFID and the UK delegation have submitted papers or statements to Board level that relate to value for money issues</li> <li>• Evidence of changes to ADB value for money policy or practice resulting from UK influence</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with DFID HQ (including IFID) and ADB HQ staff</li> <li>• Measurement approach to value for money</li> <li>• Actions taken as part of ADB internal reform programme</li> <li>• Papers from UK delegation or IFID</li> </ul>
Does programme design and roll-out take into account the needs of the intended beneficiaries? (2.2)	<b>How does DFID obtain assurance that ADB allows for appropriate voice and participation by recipient governments and communities? (ToR 6.3.1)</b>	<ul style="list-style-type: none"> <li>• UK engagement in policy debate on issues related to fair representation of Member Countries</li> <li>• Evidence of review of approaches to rebalancing influence at Board level</li> <li>• DFID and ADB engage recipient governments in project design and implementation (e.g. evidence of joint borrower and donor working groups)</li> <li>• Evidence of potential beneficiaries being included in ADB processes and, where insufficient, that the UK lobbies for this</li> </ul>	<ul style="list-style-type: none"> <li>• Current voting structure and changes in that over recent years</li> <li>• Discussions with UK representatives around informal influencing processes within ADB</li> <li>• ADB country strategy planning process</li> <li>• Interviews with ADB staff at HQ and country levels</li> <li>• Interviews with DFID staff at HQ and country levels</li> <li>• Interviews with relevant civil society organisations</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
<p>Is there good governance at all levels, with sound financial management and adequate steps being taken to avoid corruption? (2.3)</p>	<p><b>How does DFID obtain assurance that ADB policies, procedures and systems provide adequate financial control and institutional integrity in the disbursement of funds? (ToR 6.3.2)</b></p> <p>Does DFID have sufficient resources dedicated to working with ADB relative to its resources allocated to other multilateral development banks?</p>	<ul style="list-style-type: none"> <li>• Evidence that DFID carries out assurance reviews on key processes</li> <li>• Comparative staffing to other multilateral development bank relationships (key ratio – staff full time employees per US\$ million lending)</li> <li>• Comparison of expenditure per DFID staff member allocated to ADB compared to bilateral programmes</li> <li>• Evidence of UK engagement in key policy debates</li> </ul>	<ul style="list-style-type: none"> <li>• DFID review processes (including joint audits)</li> <li>• Interview with head of DFID Internal Audit</li> <li>• Current staffing of IFID and UK delegations in relation to each key multilateral development bank (i.e. World Bank, African Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank)</li> <li>• Sample of routine analysis and briefing for Board discussions (and pre-Board discussions) on financial control issues</li> </ul>
<p>Are resources being leveraged so as to work best with others and maximise impact? (2.4)</p>	<p>How does DFID gain assurance that ADB resources are being leveraged so as to work best with others and maximise impact?</p>	<ul style="list-style-type: none"> <li>• Evidence that DFID monitors ADB programmes to ensure that impact and leverage are maximised</li> <li>• Evidence that IED is providing DFID with more timely impact assessments and evaluations of countries' whole development strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with DFID HQ staff</li> <li>• Interviews with IED staff</li> <li>• IED's evaluation strategy and plan for the next three years and general methodology</li> <li>• Assessment of a sample of routine DFID communication, on project reporting and other management information</li> <li>• Recent IED reports and methodologies</li> <li>• ADB scorecard and ADF results management framework</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
Do managers ensure the efficiency and effectiveness of the delivery chain? (2.5)	<p><b>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? (ToR 6.3.3)</b></p> <p><b>How does DFID obtain assurance that ADB's service delivery is cost-effective and that project designs are cost-effective and implementation is timely? (ToR 6.3.4)</b></p> <p><b>How does DFID work with ADB and delivery partners at country level to ensure that ADB projects deliver the planned development outcomes effectively?</b></p>	<ul style="list-style-type: none"> <li>• Evidence that DFID monitors projects and makes efforts to improve their contribution to country development outcomes</li> <li>• Evidence that DFID makes efforts in project design and procurement to improve cost-effectiveness</li> <li>• Evidence that DFID has a clearly articulated and relevant approach to ADB private sector projects</li> <li>• Evidence of DFID comparing the cost-effectiveness of ADB projects with DFID bilateral and multilaterally funded programmes</li> </ul>	<ul style="list-style-type: none"> <li>• ADB project design, procurement and country monitoring approaches</li> <li>• Interviews with DFID and ADB at country level</li> <li>• Interviews with private sector recipients of ADB funding</li> </ul>
Is there a clear view of costs throughout the delivery chain? (2.6)	Does DFID have a clear view of ADB costs at both headquarters and country levels?	<ul style="list-style-type: none"> <li>• Evidence that DFID has access to information to monitor project delivery costs</li> <li>• Evidence that DFID intervenes at project design stage or at Board level to influence delivery costs and procurement methods</li> </ul>	<ul style="list-style-type: none"> <li>• Examples of information provided by ADB to DFID to monitor delivery costs on particular projects or for ADB in general</li> <li>• Examples of DFID engaging on policy issues surrounding procurement</li> <li>• Interviews with DFID at HQ and country levels</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
<p>Are risks to the achievement of the objectives identified and managed effectively? (2.7)</p>	<p><b>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? (ToR 6.3.5)</b></p> <p>How does DFID monitor projects at risk of not achieving their specific objectives or of not delivering their development outcomes?</p>	<ul style="list-style-type: none"> <li>• Evidence that DFID uses a risk register and has supporting risk management processes</li> <li>• Evidence of projects' risks being acted upon</li> </ul>	<ul style="list-style-type: none"> <li>• Examples of project risk registers and actions taken</li> <li>• Information on number of at-risk projects and projects not delivering development outcomes (and reasons for under-performance)</li> <li>• ADB approach to monitoring at-risk projects and those not delivering their development outcomes</li> <li>• Interviews with DFID and ADB at HQ and country levels</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
<p>Is the programme delivering against its agreed objectives? (2.8)</p>	<p>What information does DFID obtain at operational, management and Board levels about ADB performance and spending and how does it assess the accuracy and sufficiency of this information?</p> <p><b>How does DFID use information obtained about ADB performance and spending to address issues and improve the performance of ADB and its projects? (ToR 6.3.6)</b></p> <p>How does DFID measure the implementation and impact of commitments made in the ADFX replenishment, including internal ADB reforms?</p> <p>How does DFID use information from DFID country offices, or other parts of the UK government, to inform its understanding of ADB performance?</p>	<ul style="list-style-type: none"> <li>• Content and frequency of information received about ADB performance and spending at different levels in DFID</li> <li>• Evidence that DFID pulls together information from different sources to draw conclusions about strategic performance for communication to internal decision-makers</li> <li>• DFID monitoring ADFX commitments, including internal reforms</li> <li>• Evidence of DFID communicating with DFID country offices regarding programme performance</li> </ul>	<ul style="list-style-type: none"> <li>• Review of information received by DFID from ADB at different levels</li> <li>• Review of ways in which this information is used and communicated internally</li> <li>• Review of DFID risk-based monitoring approach</li> <li>• Interviews with DFID at HQ and country levels</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
Are appropriate amendments to objectives made to take account of changing circumstances? (2.9)	How does DFID work with ADB, delivery partners and the recipient government at country level to enable ADB projects and country portfolios to be adjusted to meet changing local circumstances?	<ul style="list-style-type: none"> <li>• Evidence of ADB having formal processes for project or programme change that DFID is able to influence</li> <li>• Evidence of in-country project and portfolio adjustment</li> <li>• Evidence of DFID engagement to change individual projects or programmes</li> </ul>	<ul style="list-style-type: none"> <li>• ADB policies related to portfolio adjustment</li> <li>• Interviews with DFID and ADB at country level</li> <li>• Routine communications between DFID and ADB on specific projects and programmes</li> </ul>
<b>Impact: What is the impact on intended beneficiaries?</b>			
Is the programme delivering clear, significant and timely benefits for the intended beneficiaries? (3.1)	<p><b>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? (ToR 6.4.1)</b></p> <p><b>What evidence exists of active engagement and assessment by the UK at the ADB Board level about the cost-effectiveness and impact of ADB expenditure? (ToR 6.4.2)</b></p>	<ul style="list-style-type: none"> <li>• Content and frequency of information received by DFID from the Results Measurement Framework and Performance Scorecard</li> <li>• Evidence of DFID challenging Board or senior management levels about value for money</li> <li>• Evidence that DFID analyses information to improve performance and value for money of ADB and communicates this to internal decision-makers</li> </ul>	<ul style="list-style-type: none"> <li>• Examples of the results measurement system and corporate scorecard outputs and analysis of these by DFID</li> <li>• Issues with data accuracy, timeliness or choice of measures</li> <li>• Reports or statements by DFID and ADB</li> <li>• Interviews with DFID and ADB at HQ levels</li> <li>• COMPAS assessment of the scorecards of development banks</li> </ul>
Is the programme working holistically alongside other programmes? (3.2)	How does DFID assess the contribution of its support for ADB to its overall aid programme?	<ul style="list-style-type: none"> <li>• Evidence of comparative analysis by DFID of ADB funding against other bilateral and multilateral aid funding</li> </ul>	<ul style="list-style-type: none"> <li>• MAR and BAR reports</li> <li>• Mini-MAR review of ADF</li> <li>• DFID aid strategy papers</li> <li>• Interviews with DFID at HQ level</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
Is there a long-term and sustainable impact from the programme? (3.3)	<b>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? (ToR 6.4.3)</b>	<ul style="list-style-type: none"> <li>• Evidence that DFID receives relevant IED reports</li> <li>• Evidence of DFID using analysis of IED reports to influence performance improvement</li> <li>• Evidence of IED using robust methodologies and making independent conclusions</li> <li>• Evidence that IED has a formal process for monitoring implementation of its recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• Recent, relevant IED reports</li> <li>• Interviews with DFID at HQ level and UK constituency delegation</li> <li>• Routine communications between DFID and ADB IED</li> <li>• Details of IED constitution, methodologies and approach to implementation</li> <li>• Comparison with OECD Development Assistance Committee quality standards</li> </ul>
Is there an appropriate exit strategy involving effective transfer of ownership of the programme? (3.4)	Where DFID is involved in ADB trust funds, how does DFID ensure that there is an effective transition when they finish so that the benefits are not lost?	<ul style="list-style-type: none"> <li>• Evidence that ADB has transition processes that DFID can influence where it is co-funding the project</li> <li>• Formal approach to planning and management of transition</li> </ul>	<ul style="list-style-type: none"> <li>• Review of completed projects, considering transition at completion</li> <li>• Review of ADF and trust fund project handover arrangements</li> <li>• Interviews with DFID and ADB at country level</li> </ul>
Is there transparency and accountability to intended beneficiaries, donors and UK taxpayers? (3.5)	<p>How extensive is ADB's commitment to information transparency?</p> <p>How does ADB ensure that intended beneficiaries are able to access information about its plans and effectiveness?</p>	<ul style="list-style-type: none"> <li>• Evidence that ADB makes available in the public domain all operational information that is not confidential (as part of its commitment to International Aid Transparency Initiative (IATI) standards)</li> <li>• Evidence of ADB monitoring the frequency of external access to public information</li> </ul>	<ul style="list-style-type: none"> <li>• Review 'negative list' of exclusions from disclosure (definition of 'confidential')</li> <li>• Number of 'hits' on website over time</li> <li>• DFID internal reporting on ADB's adherence to IATI standards</li> </ul>

Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
<b>Learning: what works and what needs improvement?</b>			
<p>Are there appropriate arrangements for monitoring inputs, processes, outputs, results and impact? (4.1)</p>	<p><b>How does DFID use views and information from DFID country offices and other parts of the UK Government to inform its understanding of ADB performance? (ToR 6.5.1)</b></p> <p>How does DFID use other sources of information and independent assessments of ADB to form its own assessment of ADB's performance?</p> <p>How can DFID's monitoring of ADB and ADF be improved?</p>	<ul style="list-style-type: none"> <li>• Quality of DFID monitoring of ADB and ADF</li> <li>• Range of information shared between DFID country offices and HQ on ADB policies and programmes</li> <li>• Evidence that DFID analyses and uses input from country offices for influencing ADB</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with DFID and ADB at HQ levels</li> <li>• Routine communication between DFID country offices and DFID HQ on ADB policies and programmes</li> <li>• Communications between DFID HQ and ADB HQ based on analysis from specific DFID country offices</li> </ul>
<p>Is there evidence of innovation and use of global best practice? (4.2)</p>	<p><b>How has DFID learned from its experience of working with ADB and other multilateral institutions to improve ADB's effectiveness and value for money? (ToR 6.5.2)</b></p>	<ul style="list-style-type: none"> <li>• Evidence of learning from other multilateral development institutions being applied to ADB</li> <li>• Evidence of lessons from ADB being fed to relevant staff working with other multilateral development institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with DFID and ADB at HQ level, including the UK constituency delegation</li> <li>• Interviews with representatives of other major donors to ADB</li> <li>• Interviews with DFID staff working with other multilateral development institutions</li> <li>• Analytical papers reviewing the performance of ADB showing learning from other institutions</li> </ul>



Relevant ICAI Evaluation Framework Questions	Evaluation Questions	Criteria for Assessment	Sources of Evidence
Is there anything currently not being done in respect of the programme that should be undertaken? (4.3)	<p><b>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? (ToR 6.5.3)</b></p>	<ul style="list-style-type: none"> <li>• DFID concerns about ADB spending and value for money</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with DFID at HQ level, including the UK constituency delegation</li> <li>• Policy papers identifying specific concerns</li> </ul>
Have lessons about the objectives, design and delivery of the programme been learned and shared effectively? (4.4)	<p><b>What has DFID learnt from previous engagements with ADB, including at replenishments and how has it applied these? (ToR 6.5.4)</b></p> <p>How does DFID plan to change the way it engages with ADB as a result of its recent experience?</p>	<ul style="list-style-type: none"> <li>• Evidence of lessons from ADFX being used in ADFXI</li> <li>• Proposed or actual changes that DFID wants to adopt in the way it engages with ADB</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with DFID at HQ level, including the UK constituency delegation</li> <li>• Papers from ADFX mid-term review and for ADFXI</li> <li>• Any papers on future strategy for ADB</li> </ul>

5.6. The evaluation will consist of the following phases:

### **Phase 1: Preliminary Assessment**

5.7. We will review relevant literature 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' commitment to transparency. We will also draw on work by MOPAN and other independent organisations (e.g. the forthcoming AUSAID report on ADB, if it is available in time); and
- **Internal ADB and DFID documents:** from ADB, this 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.

5.8. During this phase of the review, we will interview key staff in DFID's International Financial Institutions Department (IFID), which manages DFID's relationship with ADB and other multilateral development institutions. These interviews will provide us with an initial view of ADB's strategy and operations, the extent of DFID's engagement with ADB, the ways in which DFID seeks to influence policy and programming decisions, progress with the latest ADF replenishment negotiations and DFID's view of ADB performance.

5.9. This phase will be used to refine the evaluation framework and agree the details of the eight to ten open or recently completed projects to be used as case studies. Given ADB's future focus, set out in *Strategy 2020*,<sup>15</sup> the projects chosen for review will need to include those involving infrastructure developments and co-financing with the private sector. Given the weaknesses identified by the UK MAR and MOPAN, we will also include projects with an emphasis on gender. We will cover projects funded through ADF, trust funds and OCR. The countries covered by the case study projects are likely to include Bangladesh, Pakistan, India and Afghanistan, since they all receive significant amounts of ADB assistance.

### **Phase 2: Fieldwork**

5.10. The fieldwork will have two aspects: headquarters level review and project case studies. The full list of interviewees for both aspects will be drawn up in discussion with DFID and ADB.

#### *Headquarters level*

5.11. We will examine DFID's engagement with and oversight of ADB. This will involve interviews with senior staff at ADB and DFID headquarters. In our interviews with ADB, we will seek to understand ADB's processes to set priorities, monitor performance and evaluate impact. The interviewees will include the delegation representing the UK, the Corporate Reporting team and the Independent Evaluation Department. We also propose to include the representatives of several major donors (for example Japan, Germany and Australia).

5.12. In DFID, we will interview the range of engaged departments, to assess the quality and extent of their interactions with ADB. Relevant departments will include:

- policy departments (including climate change and energy, infrastructure, regional integration and trade);
- Asia Division;
- Corporate Performance;
- Evaluation; and
- Internal Audit.

#### *Project case studies*

5.13. In our project case studies, we will seek to understand how and why the projects were set up, how they fit with the UK aid programme and how DFID seeks to ensure that they are monitored and managed to deliver cost-effectively. We will review these projects by examining relevant documentation, including DFID's operational files. We will also carry out telephone or video conference discussions with DFID staff in country offices, about the ways in which they work

<sup>15</sup> *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>.

together with other donors and the recipient government on setting local priorities, designing projects, monitoring performance and addressing issues. We will support this with interviews with the relevant ADB project managers and non-governmental organisations (NGOs) in each country.

5.14. In addition, we propose to visit Bangladesh to examine some ADB projects there in more detail. There is a significant ADB programme and co-financing by DFID in Bangladesh, both DFID and ADB have a significant presence there and there is a close relationship between the two organisations. As well as interviewing DFID staff, we will also meet with:

- the representatives of ADB and the Government of Bangladesh who are most closely involved with DFID and the case study projects; and
- other donors and NGOs which have a perspective on ADB's effectiveness and areas for improvement in Bangladesh.

### ***Phase 3: Final Analysis***

5.15. Following this, we will present our initial findings to the Commissioners, before preparing a draft report based on the evidence gathered and the Commissioners' views and guidance. The final draft report will be submitted to DFID for fact checking before publication.

## **6. Roles and responsibilities**

6.1. It is proposed that this evaluation is undertaken by a core team of three, with supplementary peer review if deemed necessary.

### **Team Leader**

He is a senior management consultant with wide-ranging experience of the public, private and civil society sectors. He has particular experience of helping organisations to design and implement business change and performance improvement programmes, including projects to develop new approaches to public services delivery. He is an experienced team leader and has held such roles on large and complex consultancy projects. He has gained international experience through consultancy projects in Africa, the Middle East and Eastern Europe for agencies including the ODA, the European Commission and the World Bank. He led the KPMG team in the recently completed ICAI review of DFID's engagement with the World Bank.

He is sub-contracted to KPMG and is a former consulting partner in the firm (1990-97).

### **Team member 1 – technical adviser**

He is a member of KPMG's International Development Services team. He is a development economist with extensive experience in the world's poorest countries, gained with DFID and with consultancies including PWC, Atos and Coffey International. He worked as an economic adviser with DFID in India, Iraq, Pakistan and Southern Africa. He has also worked on projects in Afghanistan and Bangladesh.

He has led the design and management of complex public sector reform programmes in difficult and conflict-affected environments, developed economic analysis to inform government decisions on aid allocation and appraised aid interventions for effectiveness and value for money. He is a specialist in Asia and in conflict-affected countries. In Pakistan, he has taken part in a number of projects; he recently led a team designing a sub-national governance programme, he also led a team reviewing a conflict-related multi-donor trust fund and led agreement on the final stages of the UK's budget support to the Government. His most recent work in Bangladesh involved developing business cases for key sector support programmes in health and education. In Afghanistan, he led the analysis of value for money of support to the Ministry of Interior.

### **Team member 2 - researcher**

She is an experienced policy analyst and researcher. She spent three years working with NGOs and international development projects in the Russian Federation and five years working in the UK with NGOs and Birmingham City Council. In the Russian Federation, she worked with the Institute of Urban Economics, a think tank working with, amongst others, USAID, the World Bank and OECD.

With the City Council, she was a member of the Corporate Strategy team and worked on a wide range of applied research and performance improvement projects. This included providing support to the Council's Scrutiny Committee and helping to prepare the annual submission to the Audit Commission.

**Team assistant**

He works as an audit assistant in KPMG Bangladesh and has worked on a number of donor projects, including those funded by CDC, British Red Cross and Save the Children.

He will perform the role of team assistant and will coordinate the team's Bangladesh visit.

**Lead peer reviewer**

He has both operational and policy-level experience of government and international development, particularly governance. He has worked in more than 25 countries in Asia, Africa and Europe, with over 300 projects, including project design, evaluation, monitoring, review and management. His principal work over recent years has been to lead and participate in a range of projects centred on lesson learning from experience and how to turn policy and into practice.

His clients include the African and Asian Development Banks, DFID, Irish Aid, SIDA, Japan, the UNDP, UNICEF and the World Bank. He is an experienced leader of teams delivering projects to tight deadlines. He is a key member of the leadership team of the KPMG Consortium working with ICAI and has led several reviews.

In addition, we will draw on local resources in KPMG in the Philippines and Bangladesh to support the field work and enable discussions with local organisations.

**7. Management and reporting**

7.1. We will produce a first draft report for review by week commencing 21 May 2012, with time for subsequent revision and review prior to completion and sign off in July 2012.

**8. Expected outputs and time frame**

8.1. The following timetable is based on the assumption that the report will need to be finalised by July 2012, to meet ICAI's requirements.

Phase	Timetable
<b>Planning</b> Finalising methodology Drafting Inception Report	By 28 February 2012 By 1 March 2012
<b>Phase 1: Field Work</b> UK Philippines In-country case study visit (Bangladesh)	5 March – 20 April 2012 Week commencing 19 March 2012 Week commencing 15 April 2012
<b>Phase 2: Analysis and write-up</b> Roundtable with Commissioners Draft main report Report to DFID	1 May 2012 23 April – 22 June 2012 Week commencing 25 June 2012

## 9. Risks and mitigation

9.1. The following table sets out the key risks and mitigating actions for this evaluation:

Risk	Level of Risk	Specific Issues	Mitigation
Inability to access key information regarding effectiveness of ADB	Low / Medium	IED's published reports on ADB are public information  Further details regarding reports from IED will depend on close collaboration with ADB	Ensure clear authorisation given by DFID at start-up  Ensure stakeholder buy-in to the project  Ensure senior sponsorship at ADB
Difficulty in arranging Bangladesh visit	Medium	Need to ensure availability of DFID staff  Need to ensure availability of ADB staff and opportunity to visit projects	Ensure early planning with Head of DFID country office
Inability to access key information regarding decision making within ADB	Medium	It may be difficult to get access to Board-level discussions and some Board documents at ADB are not in the public domain  Will have to rely on interviews with key stakeholders and Board members – including non-UK Board members	Ensure authorisation of and stakeholder buy-in to the work  Ensure senior sponsorship at ADB
No clear impact data available for assessing DFID / UK role at ADB	Medium	Identifying the specific impact of the UK oversight on ADB and separating this from the impact of other factors on ADB outcomes may be difficult	Use evidence from multiple sources
Safety and Security	Low	Risk to team members during fieldwork	Work within FCO guidelines

## **10. How will this review make a difference?**

- 10.1. ADB is one of the most prominent multilateral development institutions in the Asia Pacific region, with a strong presence in infrastructure development. It is a key partner of DFID within the region and continues to receive strong support from major donors. Working with multilateral institutions is a fundamental approach in the UK aid programme: this review will identify lessons for DFID's oversight and management of ADB, both at headquarters and country levels. These lessons will potentially also apply to DFID's engagement with other multilateral institutions, particularly smaller ones.
- 10.2. The disadvantage of DFID acting through multilateral channels is that the precise impact of UK taxpayers' funding of any individual country is difficult to measure, making accountability more difficult. DFID is responsible for overseeing ADB's use of its funds. We will look at governance mechanisms to see how key stakeholder views and opinions are taken into account. This review will be important in identifying key governance factors, within the UK representation to ADB and within ADB itself, looking specifically at the impact that the UK has had on reviewing and improving the work of ADB. The extent to which the concerns of the UK taxpayer are addressed in the governance of ADB will also be considered.
- 10.3. This review will shed light on ADB's internal reforms (as discussed in paragraph 4.4) and will assist DFID and potentially other ADB member states in their pursuit of reform within the institution.