



April 2008

Annual Report on the 2007 Country Performance Assessment Exercise

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPA	–	country performance assessment
DMC	–	developing member country
IDA	–	International Development Association
MDB	–	multilateral development bank
PBA	–	performance-based allocation

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I. INTRODUCTION

1. Under the performance-based allocation (PBA) policy for Asian Development Fund (ADF) countries, the Asian Development Bank (ADB) links the allocation of ADF resources to country performance. The underlying premise of the system is that aid is most effective in accelerating poverty reduction in countries where policy and institutional performance are strong. Under the PBA system,¹ ADB gauges the relative performance of all eligible borrowers with access to ADF by conducting country performance assessments (CPAs) annually. This annual report provides information on the conduct and results of the 2007 assessments. It also summarizes progress in harmonizing ADB's allocation system with similar approaches at other multilateral development banks (MDBs).

II. THE PERFORMANCE-BASED ALLOCATION SYSTEM

A. Country Performance Assessments

2. ADB conducts CPAs for all its eligible developing member countries (DMCs) with access to ADF.² A CPA assesses a DMC's policy and institutional framework for promoting poverty reduction, sustainable growth, and effective use of concessional assistance. Each country's performance is assessed based on the (i) quality of its macroeconomic management, (ii) coherence of its structural policies, (iii) degree to which its policies and institutions promote equity and inclusion, (iv) quality of its governance and public sector management, and (v) performance of the ADF loan portfolio in the country. As required by the PBA policy, ADB uses the International Development Association (IDA) country policy and institutional assessment questionnaire and guidelines. The method of calculating the composite country performance rating is shown in Appendix 1. For postconflict countries, a separate performance assessment system is used, which is based on the IDA framework.³

B. Resource Allocation

3. The allocation formula is used to derive indicative ADF allocations for both loans and grants. In addition to the CPA, the formula takes into account country needs by including population and per capita gross national income. Other things equal, allocation shares increase with population and decrease with per capita income. The allocation formula is described in Appendix 2.

C. Alignment and Harmonization Activities Relating to PBA

4. ADB continues to work closely with other MDBs—the World Bank's IDA and the African Development Bank in particular—to harmonize its ADF allocation and grant policies with theirs.

¹ The system was adopted in 2001 and the policy was later revised in 2004. ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources*. Manila (R249-04, 19 November).

² As of 31 December 2007, 28 DMCs had access to ADF. Georgia and Nauru were not among them. However, a performance assessment was done for Georgia pending a decision by ADB's Board of Governors regarding Georgia's access to ADF (ADB. 2007. *Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Special Fund: Access of Armenia to ADF Resources*. Manila [R280-07, 18 December].) A performance assessment was also done for Nauru, although it is currently in non-accrual status. This report includes CPA results for Georgia and Nauru for information purposes only.

³ The questionnaire that was used in the 2007 CPA is available at <http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/CPIA06CriteriaA2.pdf>. The postconflict framework, as updated under IDA14, is available at <http://siteresources.worldbank.org/IDA/Resources/AidDeliveryConflictAffectedIDACountries.pdf>.

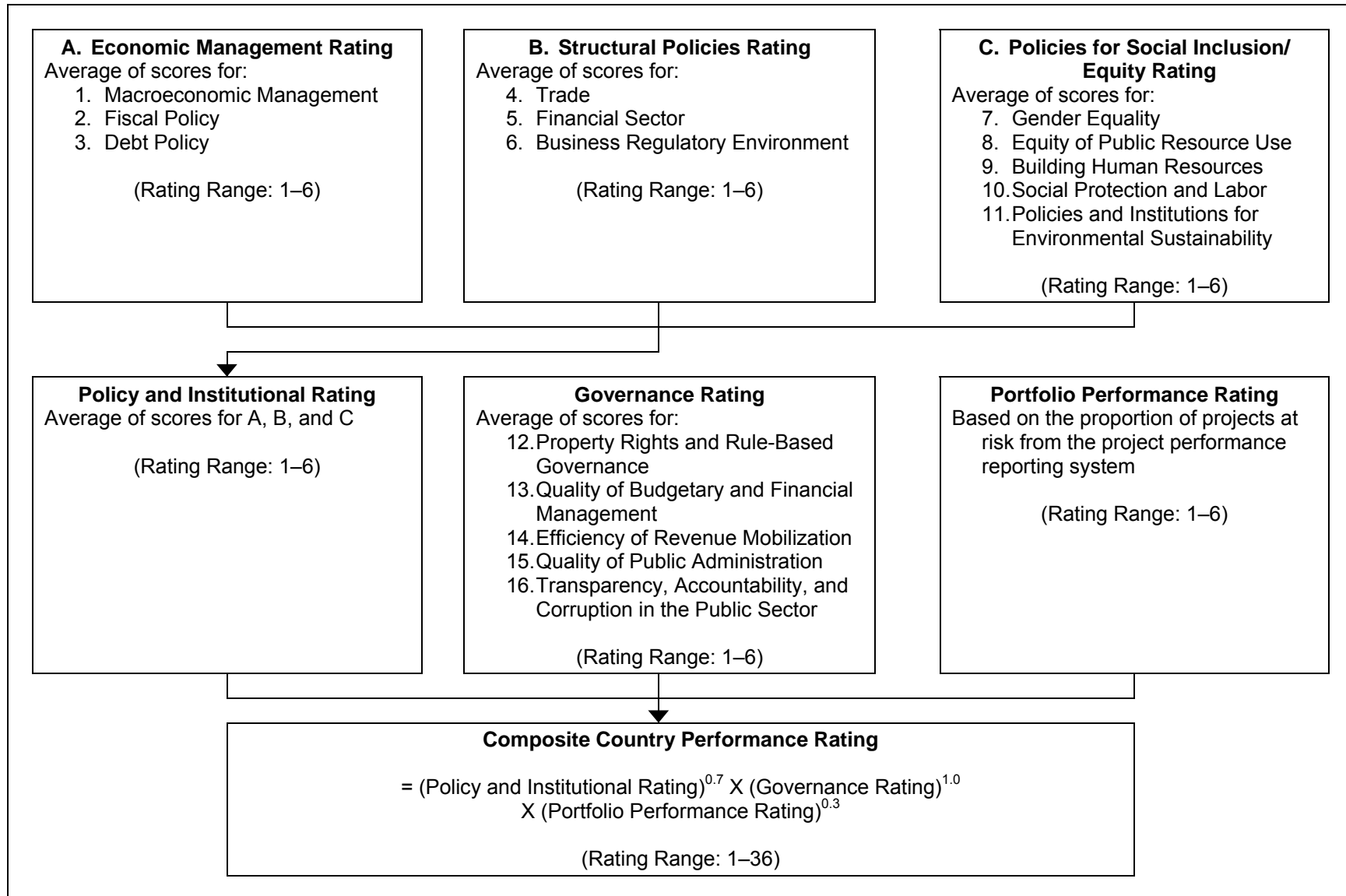
In addition to adopting the IDA's country policy and institutional assessment and postconflict performance indicators questionnaires, during the past year ADB representatives attended the IDA15 and African Development Fund 11 replenishment meetings as observers, and participated in the annual MDB technical meeting on PBA systems (3–4 April 2008, Rome). ADB staff also participated in the MDB meeting on debt issues (11–12 July 2007, Washington, D.C.), which discussed matters relevant to ADB's participation in debt relief for heavily indebted poor countries and implementation of the revised ADF grant policy (which is also closely aligned with the IDA framework).

III. 2007 COUNTRY PERFORMANCE ASSESSMENT EXERCISE

5. The 2007 CPA exercise followed the same rigorous and transparent process that was adopted in 2006 and earlier CPA exercises.⁴ The 2007 CPA ratings approved by Management are shown in Appendix 3. In accordance with the PBA policy, this CPA annual report, including the 2007 CPA ratings, will be publicly disclosed. The ratings will be used to determine ADF allocations for 2009–2010, subject to the conclusion of the ninth replenishment of ADF. Changes in the allocation may be made as a result of (i) exchange rate movements, (ii) the timing of ADF contributions from donors, (iii) changes in ADB membership and ADF eligibility, and (iv) significant changes in country circumstances or performance in 2008.

⁴ ADB. 2007. *Annual Report on the 2006 Country Performance Assessment Exercise*. Manila (IN76-07, 27 April).

CALCULATION OF THE COMPOSITE COUNTRY PERFORMANCE RATING



ALLOCATION FORMULA FOR ASIAN DEVELOPMENT FUND RESOURCES

1. The allocation formula is a weighted geometric function of the composite country performance rating, per capita income, and population. The allocation shares are scaled so that they sum to one; i.e., the formula is calibrated to ensure that total allocations will equal total available resources. Let $CCPR$ denote the composite country performance rating, PCI denote per capita income (gross national product), and POP denote population. For each country, i , the share of ADF allocated resources, S_i , is determined by the following formula:

$$S_i = CCPR_i^{2.00} \times PCI_i^{-0.25} \times POP_i^{0.60} \times C$$

2. The scaling factor, C , is a constant term where:

$$C = 1 \div \sum_i (CCPR_i^{2.00} \times PCI_i^{-0.25} \times POP_i^{0.60})$$

3. The effect of the squaring of the consolidated country performance rating on its component parts is as follows:

$$CCPR_i^{2.00} = (\text{policy and institutional rating})_i^{1.40} \times (\text{governance rating})_i^{2.00} \\ \times (\text{portfolio performance rating})_i^{0.60}$$

which highlights the importance of the governance rating in the overall country allocation.

4. Each country's indicative assistance level is derived by applying its country allocation share to the ADF commitment authority.

RESULTS OF THE 2007 COUNTRY PERFORMANCE ASSESSMENTS

Table A3.1: Country Performance Assessment Ratings, 2007

Country	Policy and Institutional Rating															Governance Rating						Portfolio Perf. Rating	Composite Country Perf. Rating	
	A. Economic Management				B. Structural Policies				C. Policies for Social Inclusion/Equity							Policy and Institutional Average (A+B+C)/3	Governance Rating							
	1. Macroeconomic Management	2. Fiscal Policy	3. Debt Policy	Group Average	4. Trade	5. Financial Sector	6. Business Regulatory Env't	Group Average	7. Gender Equality	8. Equity of Public Resource Use	9. Building Human Resources	10. Social Protection and Labor	11. Policies & Inst's for Environ. Sustain.	Group Average	12. Prop. Rights and Rule-Based Gov.		13. Budgetary and Financial Mgt	14. Revenue Mobilization	15. Public Admin.	16. Transparency, Account., and Corruption	Group Average			
Armenia ^a	5.5	5.5	5.5	5.5	5.0	4.0	4.0	4.3	4.5	4.5	4.0	4.5	4.0	4.3	4.7	4.0	4.0	4.0	4.0	3.5	3.9	4.0	17.5	
Azerbaijan	4.0	3.0	5.0	4.0	3.0	3.5	3.0	3.2	4.0	3.5	3.0	3.5	3.0	3.4	3.5	3.0	3.0	4.0	2.5	2.5	3.0	2.5	9.5	
Bangladesh	4.5	3.5	4.5	4.2	3.0	3.5	3.5	3.3	4.0	3.5	4.0	4.0	3.0	3.7	3.7	3.5	3.5	3.0	3.0	3.0	3.2	5.0	13.0	
Bhutan	4.5	3.5	4.0	4.0	3.5	3.5	3.5	3.5	4.5	4.5	4.0	3.5	4.5	4.2	3.9	4.0	4.0	4.0	4.0	4.0	4.0	5.0	16.8	
Cambodia	4.5	4.0	4.0	4.2	4.0	3.5	3.0	3.5	4.0	4.0	4.0	3.0	3.0	3.6	3.8	2.5	3.5	4.0	2.5	2.5	3.0	4.5	11.9	
Cook Islands ^a	5.0	4.5	5.0	4.8	4.0	4.5	4.0	4.2	4.5	4.5	4.0	4.5	4.0	4.3	4.4	4.0	4.5	5.0	4.0	4.5	4.4	4.0	18.9	
Georgia ^{a,b}	4.5	4.5	5.0	4.7	4.5	3.5	5.0	4.3	4.5	5.0	4.5	4.0	4.0	4.4	4.5	3.5	4.0	4.5	4.0	4.0	4.0	4.0	17.3	
Indonesia	4.5	4.5	4.5	4.5	4.0	4.0	3.5	3.8	4.0	3.5	3.5	3.5	3.5	3.6	4.0	2.5	4.5	3.0	2.5	3.0	3.1	5.5	13.6	
Kiribati ^a	2.5	2.5	3.5	2.8	2.5	3.0	2.5	2.7	3.0	3.0	3.0	3.0	3.0	3.0	2.8	3.0	3.0	3.0	3.0	3.0	3.0	4.0	9.4	
Kyrgyz Republic	4.5	4.0	4.0	4.2	5.0	3.5	3.5	4.0	4.5	3.5	4.0	3.5	3.5	3.8	4.0	3.0	3.5	3.5	2.5	2.5	3.0	5.0	12.8	
Lao, PDR	4.0	4.0	4.0	4.0	3.5	2.0	3.5	3.0	4.0	4.0	4.0	4.0	3.0	3.8	3.6	3.0	3.0	3.5	3.5	3.0	3.2	5.0	12.7	
Maldives	3.5	2.5	3.5	3.2	3.5	3.0	4.0	3.5	4.0	4.0	4.0	3.5	4.0	3.9	3.5	4.0	3.5	4.0	4.0	2.5	3.6	4.0	13.2	
Marshall Islands ^a	2.5	2.5	2.0	2.3	3.0	3.0	2.5	2.8	3.0	2.0	3.0	2.5	2.5	2.6	2.6	3.5	2.5	3.0	2.0	2.5	2.7	4.0	8.0	
Micronesia, FS	2.5	2.5	2.0	2.3	4.0	3.5	2.5	3.3	2.5	2.0	3.0	2.0	3.0	2.5	2.7	3.5	3.0	3.0	2.0	3.0	2.9	2.0	7.2	
Mongolia	4.5	4.5	4.0	4.3	4.5	3.5	4.0	4.0	3.5	4.0	4.0	3.5	3.0	3.6	4.0	3.5	4.0	4.0	3.5	3.5	3.7	5.5	16.2	
Nauru ^{a,b}	3.0	2.0	1.0	2.0	4.0	1.0	2.0	2.3	3.0	2.5	2.5	2.5	1.0	2.3	2.2	2.5	3.5	3.0	3.0	3.0	3.0	4.0	7.9	
Nepal	4.0	3.5	3.5	3.7	4.5	3.0	3.5	3.7	3.5	4.0	3.5	3.5	3.5	3.6	3.6	3.5	4.0	4.0	3.5	3.5	3.7	4.0	13.9	
Pakistan	4.0	3.5	4.5	4.0	4.0	4.5	4.0	4.2	3.0	3.5	3.5	3.0	3.5	3.3	3.8	3.0	4.0	3.5	3.5	3.0	3.4	5.0	14.1	
Papua New Guinea	4.0	3.5	4.5	4.0	3.5	3.0	2.5	3.0	2.5	3.0	2.5	3.0	1.5	2.5	3.2	3.0	3.5	4.0	2.5	3.0	3.2	4.0	10.9	
Samoa	4.5	4.0	4.0	4.2	4.5	4.5	3.5	4.2	4.5	4.0	4.5	3.5	3.5	4.0	4.1	4.5	4.0	4.5	4.5	4.5	4.4	4.0	17.9	
Solomon Islands ^a	4.0	3.5	3.0	3.5	4.0	3.5	2.5	3.3	2.5	3.0	2.5	2.5	2.5	2.6	3.1	2.5	3.5	3.0	2.5	3.0	2.9	4.0	9.8	
Sri Lanka	3.5	2.5	3.5	3.2	3.5	4.0	3.5	3.7	3.5	4.0	4.0	3.5	4.0	3.8	3.5	3.0	4.0	3.5	3.0	3.0	3.3	4.5	12.6	
Tajikistan	4.0	4.5	4.0	4.2	4.0	3.0	3.0	3.3	3.5	3.5	3.0	3.5	3.5	3.4	3.6	3.0	4.0	3.0	3.0	2.5	3.1	5.0	12.4	
Timor-Leste ^{a,c}	4.0	3.5	5.5	4.3	3.5	2.5	1.5	2.5	2.5	4.0	2.5	1.5	2.0	2.5	3.1	2.0	3.0	3.0	3.0	3.0	2.8	4.0	9.4	
Tonga ^a	3.0	4.0	3.0	3.3	2.0	4.0	3.0	3.0	3.5	3.0	4.0	3.0	3.0	3.3	3.2	3.0	4.0	4.0	3.5	3.0	3.5	4.0	12.0	
Tuvalu	3.5	3.5	3.0	3.3	2.5	2.5	2.5	2.5	3.5	3.5	4.0	3.0	3.0	3.4	3.1	4.0	3.0	2.5	3.0	3.0	3.1	5.5	11.4	
Uzbekistan	4.0	4.0	4.5	4.2	2.5	3.0	3.0	2.8	3.5	4.0	4.0	3.5	3.5	3.7	3.6	2.5	3.0	3.0	2.5	1.5	2.5	1.0	6.1	
Vanuatu ^a	4.0	3.5	4.0	3.8	2.5	3.0	3.0	2.8	2.5	3.0	2.5	3.0	3.0	2.8	3.2	3.0	3.5	3.0	3.0	3.0	3.1	4.0	10.5	
Viet Nam	5.0	4.5	4.5	4.7	3.5	4.0	4.0	3.8	5.0	4.5	4.5	4.0	4.0	4.4	4.3	4.0	4.0	4.0	4.0	4.0	4.0	4.5	17.4	
Average	4.0	3.6	3.9	3.8	3.6	3.3	3.2	3.4	3.6	3.6	3.6	3.3	3.2	3.5	3.6	3.2	3.6	3.6	3.2	3.1	3.3	4.2	12.6	

ADF = Asian Development Fund, FS of Micronesia = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.

^a Country had fewer than two ongoing projects in its portfolio so portfolio performance rating is equal to the average for all countries.

^b Georgia and Nauru are being assessed for the first time. Nauru currently has no access to ADB and is being shown for information purposes only.

^c Timor-Leste is being phased-out from postconflict status. As a result, both the postconflict country performance assessment and the regular country performance assessment were completed in 2007.

Source: Asian Development Bank.

Table A3.2: Postconflict Country Performance Assessment Ratings, 2007

Postconflict Performance Indicators^a	Afghanistan	Timor-Leste
Progress in Postconflict Recovery (average of A, B, C, D)	3.9	4.2
A. Security and Reconciliation	3.5	4.0
1. Security	2.5	4.0
2. Reconciliation	3.5	4.0
3. Disarmament, Demobilization, and Reintegration	4.5	4.0
B. Economic Recovery	4.5	4.5
4. Fiscal and Monetary Policies, Debt and Inflation	5.0	5.0
5. Trade and Foreign Exchange Policies and Private Sector Environment	3.5	4.5
6. Management and Sustainability of National Recovery Program	5.0	4.0
C. Social Exclusion and Social Development	4.2	4.0
7. Reintegration of Displaced Populations	4.5	3.0
8. Building Human Resources	3.5	4.5
9. Social Cohesion, Nondiscrimination and Human Rights	4.5	4.5
D. Public Sector Management and Institutions	3.3	4.3
10. Fiscal and Budgetary Management, and Efficiency of Revenue Mobilization	4.0	4.5
11. Reestablishing Public Administration and Rule-Based Governance	3.5	4.5
12. Transparency, Accountability, and Corruption in the Public Sector	2.5	4.0
Quality of Portfolio Performance	4.0	4.0

^a These postconflict performance indicators follow the International Development Association revised indicators for 2006.

Source: Asian Development Bank.

Table A3.3: Country Rankings by Performance Indicator Clusters, 2007

Economic Management		Structural Policies		Policies for Social Inclusion/Equity		Governance		Portfolio Performance	
Armenia	5.5	Armenia	4.3	Georgia	4.4	Cook Islands	4.4	Indonesia	5.5
Cook Islands	4.8	Georgia	4.3	Viet Nam	4.4	Samoa	4.4	Mongolia	5.5
Georgia	4.7	Cook Islands	4.2	Armenia	4.3	Bhutan	4.0	Tuvalu	5.5
Viet Nam	4.7	Pakistan	4.2	Cook Islands	4.3	Georgia	4.0	Bangladesh	5.0
Indonesia	4.5	Samoa	4.2	Bhutan	4.2	Viet Nam	4.0	Bhutan	5.0
Mongolia	4.3	Kyrgyz Republic	4.0	Samoa	4.0	Armenia	3.9	Kyrgyz Republic	5.0
Timor-Leste	4.3	Mongolia	4.0	Maldives	3.9	Mongolia	3.7	Lao PDR	5.0
Bangladesh	4.2	Indonesia	3.8	Kyrgyz Republic	3.8	Nepal	3.7	Pakistan	5.0
Cambodia	4.2	Viet Nam	3.8	Lao PDR	3.8	Maldives	3.6	Tajikistan	5.0
Kyrgyz Republic	4.2	Nepal	3.7	Sri Lanka	3.8	Tonga	3.5	Cambodia	4.5
Samoa	4.2	Sri Lanka	3.7	Bangladesh	3.7	Pakistan	3.4	Sri Lanka	4.5
Tajikistan	4.2	Bhutan	3.5	Uzbekistan	3.7	Sri Lanka	3.3	Viet Nam	4.5
Uzbekistan	4.2	Cambodia	3.5	Cambodia	3.6	Bangladesh	3.2	Armenia	4.0
Azerbaijan	4.0	Maldives	3.5	Indonesia	3.6	Lao PDR	3.2	Cook Islands	4.0
Bhutan	4.0	Bangladesh	3.3	Mongolia	3.6	Papua New Guinea	3.2	Georgia	4.0
Lao PDR	4.0	FS Micronesia	3.3	Nepal	3.6	Indonesia	3.1	Kiribati	4.0
Pakistan	4.0	Solomon Islands	3.3	Azerbaijan	3.4	Tajikistan	3.1	Maldives	4.0
Papua New Guinea	4.0	Tajikistan	3.3	Tajikistan	3.4	Tuvalu	3.1	Marshall Islands	4.0
Vanuatu	3.8	Azerbaijan	3.2	Tuvalu	3.4	Vanuatu	3.1	Nauru	4.0
Nepal	3.7	Lao PDR	3.0	Pakistan	3.3	Azerbaijan	3.0	Nepal	4.0
Solomon Islands	3.5	Papua New Guinea	3.0	Tonga	3.3	Cambodia	3.0	Papua New Guinea	4.0
Tonga	3.3	Tonga	3.0	Kiribati	3.0	Kiribati	3.0	Samoa	4.0
Tuvalu	3.3	Marshall Islands	2.8	Vanuatu	2.8	Kyrgyz Republic	3.0	Solomon Islands	4.0
Maldives	3.2	Uzbekistan	2.8	Marshall Islands	2.6	Nauru	3.0	Timor-Leste	4.0
Sri Lanka	3.2	Vanuatu	2.8	Solomon Islands	2.6	FS Micronesia	2.9	Tonga	4.0
Kiribati	2.8	Kiribati	2.7	FS Micronesia	2.5	Solomon Islands	2.9	Vanuatu	4.0
FS Micronesia	2.3	Timor-Leste	2.5	Papua New Guinea	2.5	Timor-Leste	2.8	Azerbaijan	2.5
Marshall Islands	2.3	Tuvalu	2.5	Timor-Leste	2.5	Marshall Islands	2.7	FS Micronesia	2.0
Nauru	2.0	Nauru	2.3	Nauru	2.3	Uzbekistan	2.5	Uzbekistan	1.0

ADF = Asian Development Fund, FS Micronesia = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.

Note: Countries are ranked in descending order by cluster score. When scores are equal, countries are listed alphabetically. Nauru currently has no access to ADF and is being shown for information purposes only.

Source: Asian Development Bank.