

**OPERATIONS MANUAL
 POLICIES AND PROCEDURES**

These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject. This *Operations Manual* is issued by the Strategy, Policy and Review Department with the approval of the President. Questions may be directed to the Director, Operations Planning and Coordination Division; Strategy, Policy and Review Department.

CLASSIFICATION AND GRADUATION OF DEVELOPING MEMBER COUNTRIES

A. Classification

1. Eligibility for concessional resources among the developing member countries (DMCs) of the Asian Development Bank (ADB) is based on (i) gross national income (GNI) per capita, and (ii) creditworthiness for regular ordinary capital resources (OCR) loans or market-based resources (endnotes i, ii, and iii).

2. ADB uses the World Bank’s GNI per capita estimates based on the Atlas method and the International Development Association’s operational cutoff for eligibility, which is updated periodically—usually annually (endnote i).

3. To assess their creditworthiness, DMCs would be placed under three categories: adequate creditworthiness, limited creditworthiness, and lack of creditworthiness. ADB uses the following three-tier classification system: group A (concessional assistance-only countries),¹ group B (OCR blend countries),² and group C (regular OCR-only countries)³ (endnote i). The decision matrix of classification is provided in Table 1. Appendix 1 presents the classification of DMCs.

Table 1: Decision Matrix of Classification

Creditworthiness ^a	Per Capita GNI Cutoff		
	Below Per Capita GNI Cutoff	Above Per Capita GNI Cutoff	
		LDC ^b	Other
Lack of	Concessional assistance-only (Group A)	Concessional assistance-only (Group A)	OCR Blend (Group B) ^c
Limited	OCR Blend (Group B)	OCR Blend (Group B)	OCR Blend (Group B)
Adequate	OCR Blend (Group B)	OCR Blend (Group B)	Regular OCR-only (Group C)

GNI=gross national income, LDC=least developed country, OCR= ordinary capital resources.
^a Creditworthiness for regular OCR loans or market-based resources.
^b The list of LDCs is available at http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf
^c Where the DMC is a member of the World Bank and is assessed jointly by the World Bank and the International Monetary Fund (with ADB participation where possible) to be at moderate or high risk of debt distress, or in debt distress, under the debt sustainability framework for low-income countries; or where a DMC is not a member of the World Bank and is assessed by ADB to be at moderate or high risk of debt distress, or in debt distress, under the debt sustainability framework for low-income countries, then it should be classified as a Group A country.

Source: Asian Development Bank

¹ Reflects changes to terminologies because of the combination of Asian Development Fund (ADF) lending operations with the OCR balance sheet effective 1 January 2017 (ADB. 2016. *Concessional Assistance Policy*. Manila). These were formerly called “ADF-only countries.”

² These were formerly called “blend countries.”

³ These were formerly called “OCR-only countries.”

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4. ADB lending on regular OCR terms and ADB guarantees with counter-guarantees from a government can be considered on an exceptional basis for group A DMCs for projects that earn foreign exchange and are able to fully service their foreign debt from their net foreign exchange earnings (endnote i).

5. A review of country classification would normally take place at the same time as the Asian Development Fund replenishment exercise. ADB may undertake the country classification of a new DMC or review an individual country classification if the country's economic conditions warrant it. ADB submits DMC country classifications to the Board for approval, generally on a no-objection basis (endnote i). The analyses of country creditworthiness and credit ratings are not made publicly available (endnote iv). However, country classifications of DMCs are made publicly available upon Board approval (endnote i, para. 96).

B. Graduation from Concessional Assistance

6. ADB uses the International Development Association's operational cutoff for eligibility as the income threshold. Graduation from concessional assistance is normally triggered when a country exceeds the per capita GNI operational cutoff and achieves adequate creditworthiness for regular OCR or market-based resources. Graduation from concessional assistance involves close consultation with the DMC (endnote ii, para. 44). The process of graduation normally takes about 4 years to complete, after crossing the income threshold (endnote ii, para. 49).

C. Graduation from Regular ADB Assistance

7. The criteria for graduating from regular ADB assistance are (i) GNI per capita, (ii) the availability of commercial capital flows on reasonable terms, and (iii) the attainment of a certain level of development by key economic and social institutions. ADB uses the benchmark of the International Bank for Reconstruction and Development to trigger the graduation process. The benchmark is updated periodically—usually annually (endnote i).

8. Graduation from regular ADB assistance is triggered when a country reaches the GNI per capita benchmark. ADB then analyzes the country's readiness to graduate by applying the criteria in para. 7. Recognizing that countries reaching the GNI per capita graduation threshold may differ in their progress toward developing key institutions for economic and social development, ADB takes a flexible approach in determining the pace of graduation. Graduation from regular ADB assistance also involves close consultation with the borrower. Graduation from new regular OCR lending normally occurs within 5 years after a country crosses the graduation benchmark, with variations according to country specific conditions. Direct private sector investment by ADB in graduated DMCs would cease. (endnote ii, para. 50).

9. A DMC graduating from either concessional assistance or regular OCR resources may be eligible for these resources again if its economic conditions deteriorate (endnote ii, para. 51).

D. Relationship between Graduated Developing Member Countries and ADB

10. Five developing members—Brunei Darussalam; Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China—have graduated from regular ADB assistance (endnotes i,

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para. 98; and v).

11. Graduation from regular ADB assistance is not linked to the DMC status of the country, and it does not signify termination of a DMC's relationship with ADB. Graduated DMCs and ADB cooperate in this phase in several ways. For instance, ADB may provide expert services and technical assistance (on a reimbursable basis), as requested and if available. ADB may also contribute to the development of capital markets of its graduated DMCs through its borrowing activities. Transfer of technology may be arranged between graduated DMCs and other DMCs. Cofinancing opportunities with ADB may arise. ADB may promote private-to-private flows from graduated DMCs to other DMCs. Graduated DMCs may be involved in subregional cooperation. In the event of an economic crisis, emergency assistance is available to graduated DMCs (endnote i, paras. 79–85).

Basis

- ⁱ ADB. 1998. *A Graduation Policy for ADB's DMCs*. Manila (R204-98).
- ⁱⁱ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila (R71-08).
- ⁱⁱⁱ ADB. 2016. *Concessional Assistance Policy*. Manila (R36-16).
- ^{iv} ADB. 2011. *Review of the Public Communications Policy of the Asian Development Bank: Disclosure and Exchange of Information*. Manila (R169-11).
- ^v ADB. 2013. *Brunei Darussalam: Country Classification*. Manila (R16-13); ADB. 2012. *Brunei Darussalam: Development Status*. Manila.

Classification of Developing Member Countries

Group A (Concessional assistance-only)	Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Federated States of Micronesia, ^a Lao People's Democratic Republic, Maldives, Marshall Islands, ^b Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, Vanuatu.
Group B (OCR Blend)	Bangladesh, India, ^c Mongolia, ^d Pakistan, Palau, Papua New Guinea, Sri Lanka, ^e Timor-Leste, ^f Uzbekistan, Viet Nam. ^g
Group C (Regular OCR-only)	Armenia, ^h Azerbaijan, ⁱ People's Republic of China, Cook Islands, Fiji, Georgia, ^j Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, Turkmenistan,

OCR = ordinary capital resources.

Note: For countries without an endnote reference, classification is based on the *Review of the 1998 Graduation Policy of the Asian Development Bank*, Manila (R71-08).

^a ADB. 2017. *Federated States of Micronesia: Review of Classification under ADB's Graduation Policy*. Manila (R1-17).

^b ADB. 2013. *Marshall Islands: Review of Classification under ADB's Graduation Policy*. Manila (R61-13).

^c Has no access to concessional assistance.

^d ADB. 2011. *Review of the Classification of Mongolia Under the Asian Development Bank's Graduation Policy*. Manila (115-11).

^e ADB. 2017. *Sri Lanka: Review of Classification under ADB's Graduation Policy*. Manila (R67-17). Sri Lanka reclassification to Group C will be effective from 1 January 2019.

^f ADB. 2011. *Review of the Classification of Timor-Leste under the Asian Development Bank's Graduation Policy. Corrigendum 1*. Manila (172-11).

^g ADB. 2017. *Viet Nam: Review of Classification under ADB's Graduation Policy*. Manila (R66-17). Viet Nam reclassification to Group C will be effective from 1 January 2019.

^h ADB. 2014. *Armenia: Review of Classification under ADB's Graduation Policy*. Manila (R77-14).

ⁱ ADB. 2013. *Azerbaijan: Review of Classification under ADB's Graduation Policy*. Manila (R89-13).

^j ADB. 2014. *Georgia: Review of Classification under ADB's Graduation Policy*. Manila (R78-14).

Source: Asian Development Bank