



ADB

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Annual Report on the 2010 Country Performance Assessment Exercise

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CCPR	–	composite country performance rating
COSO	–	Central Operations Services Office
CPA	–	country performance assessment
DMC	–	developing member country
ERD	–	Economics and Research Department
MDB	–	multilateral development bank
OREI	–	Office of Regional Economic Integration
PBA	–	performance-based allocation
RSDD	–	Regional and Sustainable Development Department

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Asian Development Bank (ADB) links the allocation of Asian Development Fund (ADF) resources to country performance.¹ This system is based on the principle that aid is most effective in accelerating economic growth and poverty reduction in countries where policy and institutional performance is strong. Under the Performance-Based Allocation (PBA) Policy, ADB gauges the relative performance of eligible borrowers with access to the ADF by conducting annual country performance assessments (CPAs). This annual report provides information on the conduct and results of the 2010 assessments. It also summarizes efforts to harmonize ADB's allocation system with similar approaches to the PBA of concessional resources at other multilateral development banks (MDBs).

II. THE PERFORMANCE-BASED ALLOCATION SYSTEM

A. Country Performance Assessments

2. ADB conducts CPAs for all developing member countries with access to the ADF.² The CPA assesses a developing member country'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 project portfolio in the country. As required by the PBA policy, ADB uses the International Development Association country policy and institutional assessment questionnaire and guidelines. The method of calculating the composite country performance rating is in Appendix 1.

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 being equal, allocation shares increase as population rises and decrease as per capita income increases. The allocation formula is described in Appendix 2.

C. Implementation Arrangements

4. The focal point for implementing the PBA policy is outside the regional departments in the Strategy and Policy Department. The revised PBA policy instituted this arrangement to separate ADF resource allocation from ADF resource use. However, representatives of the regional departments are included in the CPA working group, along with experts from the Central Operations Services Office (COSO), Economics and Research Department (ERD),

¹ The system was adopted in 2001. The Performance-Based Allocation Policy was revised in 2004, 2007, and 2008. ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources*. Manila; ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila; and ADB. 2008. *Refining the Performance-Based Allocation of Asian Development Fund Resources*. Manila.

² ADB. 2008. *The Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila. Effective 1 January 2010, 28 DMCs had access to the ADF. This reflects (i) the graduation of the Cook Islands and Indonesia from ADF assistance, (ii) the donors' agreement to grant Nauru and Palau access beginning from ADF X, and (iii) the decision of Azerbaijan to opt out of ADF assistance.

Office of Regional Economic Integration (OREI), and Regional and Sustainable Development Department (RSDD). A technical subgroup consisting of experts from COSO, ERD, OREI, and RSDD reviews the preliminary CPAs prepared by the country teams and recommends revisions to ensure quality and consistency across countries. The CPA working group then reviews the revised assessments and recommends the country ratings to a CPA review panel. The CPA review panel—chaired by the director general of the Strategy and Policy Department and comprising the heads of the regional departments, COSO, ERD, OREI, and RSDD—finalizes the ratings for ADB Management endorsement.

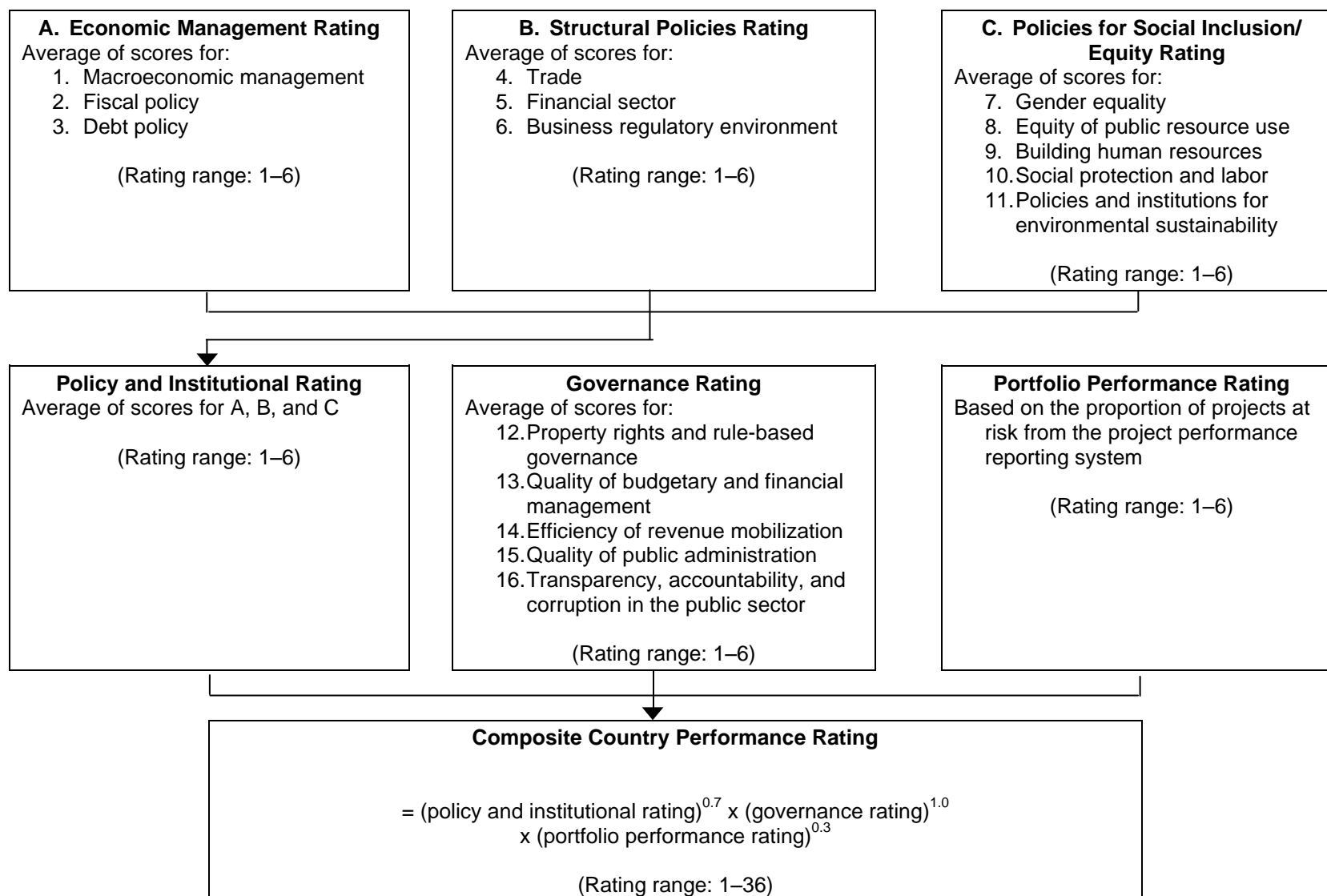
D. Harmonization of Performance-Based Allocation System with Other Multilateral Development Banks

5. ADB continues to harmonize its ADF allocation and grant policies with other MDBs. Close collaboration with other MDBs is being maintained through annual joint technical workshops and/or meetings on PBA and debt issues. In August 2010, ADB hosted the Sixth MDB technical workshop on PBA in Cebu City, the Philippines. Representatives from MDBs, including the African Development Bank, Caribbean Development Bank, Inter-American Development Bank, International Fund for Agricultural Development, and World Bank, attended the meeting and discussed issues of common interest on CPA and PBA.

III. 2010 COUNTRY PERFORMANCE ASSESSMENT

6. The 2010 CPA exercise followed the same rigorous and transparent process adopted in earlier CPA exercises. The 2010 CPA ratings approved by ADB Management are in Appendixes 3 and 4. Appendix 3 shows the detailed ratings for the countries taking part in the 2010 CPA exercise. Appendix 5 shows country rankings for each performance indicator cluster and the overall ranking. The results of a post-conflict performance assessment for Afghanistan are reported separately in Appendix 4. In accordance with the PBA policy, this CPA annual report, including the 2010 CPA ratings, will be disclosed to the public. The final 2011–2012 ADF country allocation was made at the end of 2010 according to the allocation formula in Appendix 2 based on the 2010 CPA exercise outcome and the updated estimate for the ADF commitment authority.

CALCULATION OF THE COMPOSITE COUNTRY PERFORMANCE RATING



Source: ADB. 2008. *Refining the Performance-Based Allocation of Asian Development Fund Resources*. Manila.

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 (or gross national product where national income estimates are not available), and POP denote population. For each country, i , the share of the Asian Development Fund-allocated resources, S_i , is determined by the following formula:

$$S_i = \text{CCPR}_i^{2.00} \times \text{PCI}_i^{-0.25} \times \text{POP}_i^{0.60} \times C$$

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

$$C = 1 \div \sum_i (\text{CCPR}_i^{2.00} \times \text{PCI}_i^{-0.25} \times \text{POP}_i^{0.60})$$

3. The effect of the squaring of the CCPR on its component parts is as follows:

$$\begin{aligned} \text{CCPR}_i^{2.00} = & (\text{policy and institutional rating})_i^{1.40} \times (\text{governance rating})_i^{2.00} \\ & \times (\text{portfolio performance rating})_i^{0.60} \end{aligned}$$

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 Asian Development Fund commitment authority.

COUNTRY PERFORMANCE ASSESSMENT RATINGS, 2010

DMCs	A. Economic Management				B. Structural Policies				C. Policies for Social Inclusion/Equity						D. Public Sector Management and Institutions						17. Portfolio	CCPR	
	1	2	3	Average	4	5	6	Average	7	8	9	10	11	Average	12	13	14	15	16	Average			
	Macroeconomic Management	Fiscal Policy	Debt Policy		Trade	Financial Sector	Business Regulatory Environment		Gender Equality	Equity of Public Resource Use	Building Human Resources	Social Protection and Labor	Policies and Institutions For Environmental Sustainability		Property Rights and Rule-Based Governance	Quality of Budgetary and Financial Management	Efficiency of Revenue Mobilization	Quality of Public Administration	Transparency, Accountability, and Corruption in Public Sector				
Pacific Countries																							
Kiribati	2.0	2.0	3.5	2.5	2.5	3.0	2.5	2.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5	3.0	2.5	3.0	2.8	3.5	8.2	
Marshall Islands	2.5	2.5	3.0	2.7	3.0	3.0	2.5	2.8	3.0	2.0	3.0	3.0	2.5	2.7	3.5	2.5	3.0	2.0	2.5	2.7	3.5	7.9	
FSM	2.5	2.0	2.5	2.3	4.0	3.5	2.5	3.3	3.0	2.0	2.5	2.0	3.0	2.5	3.0	3.0	3.0	2.0	3.0	2.8	3.5	8.2	
Nauru	3.0	2.5	1.5	2.3	4.0	1.0	2.0	2.3	3.0	3.5	3.0	3.5	2.5	3.1	2.5	4.0	3.0	3.0	3.5	3.2	3.5	9.1	
Palau	3.0	2.0	3.5	2.8	4.0	2.5	2.5	3.0	3.0	3.0	4.0	3.5	3.0	3.3	3.5	3.5	2.5	3.0	3.0	3.1	3.5	9.8	
Papua New Guinea	4.0	3.0	4.0	3.7	4.0	3.0	3.0	3.3	2.5	3.5	2.5	3.0	2.0	2.7	3.0	3.5	4.0	2.5	3.0	3.2	4.0	11.0	
Samoa	3.5	3.0	3.5	3.3	5.0	4.0	3.5	4.2	3.5	4.0	4.0	3.5	4.0	3.8	4.0	3.5	4.5	4.0	4.0	4.0	3.5	14.7	
Solomon Islands	3.5	3.0	4.0	3.5	4.0	3.5	3.0	3.5	3.0	3.5	3.0	2.5	2.5	2.9	3.5	3.5	3.0	2.5	3.0	3.1	3.0	9.9	
Timor-Leste	3.0	3.5	3.5	3.3	4.5	2.5	2.0	3.0	3.0	3.0	2.5	3.0	2.5	2.8	2.0	3.0	3.0	2.5	2.5	2.6	3.5	8.3	
Tonga	3.0	3.0	3.0	3.0	4.0	3.0	3.5	3.5	3.5	4.0	3.5	2.5	3.0	3.3	3.5	4.0	4.5	4.0	3.5	3.9	3.0	12.4	
Tuvalu	3.5	3.0	1.5	2.7	3.0	2.0	2.5	2.5	3.0	3.5	4.0	3.0	3.0	3.3	4.0	3.0	3.0	3.5	3.0	3.3	2.5	9.0	
Vanuatu	4.0	3.5	4.0	3.8	3.0	4.0	3.0	3.3	3.0	3.0	2.5	3.0	2.5	2.8	3.5	3.5	3.0	3.5	3.0	3.3	3.5	11.1	
Average	3.1	2.8	3.1	3.0	3.8	2.9	2.7	3.1	3.0	3.2	3.1	3.0	2.8	3.0	3.3	3.3	3.3	2.9	3.1	3.2	3.4	10.0	
Group A Countries																							
Afghanistan	3.5	3.5	3.5	3.5	3.0	2.5	2.5	2.7	2.0	3.0	3.0	2.5	2.5	2.6	1.5	3.5	3.0	2.5	2.5	2.6	3.0	7.7	
Bhutan	4.5	4.5	4.5	4.5	4.0	3.0	3.5	3.5	4.5	4.0	4.5	4.0	5.0	4.4	4.5	4.5	5.0	5.0	4.5	4.7	3.0	17.6	
Cambodia	4.5	4.0	4.0	4.2	4.0	4.5	3.5	4.0	4.0	4.5	4.5	3.5	3.5	4.0	3.5	4.0	4.0	3.5	3.5	3.7	3.5	14.4	
Kyrgyz Republic	4.5	3.5	4.5	4.2	5.0	3.5	4.0	4.2	4.5	3.5	4.0	4.0	4.0	4.0	2.5	3.5	3.5	3.0	3.0	3.1	3.5	12.1	
Lao PDR	4.5	4.0	4.0	4.2	4.0	3.5	3.5	3.7	4.0	4.5	4.5	3.5	4.0	4.1	4.0	4.0	3.5	4.0	3.5	3.8	4.0	15.1	
Maldives	4.0	3.5	3.0	3.5	3.5	3.0	4.0	3.5	3.5	4.0	4.0	3.5	3.5	3.7	4.0	3.0	4.0	4.0	3.0	3.6	2.5	11.5	
Mongolia	4.0	3.5	4.0	3.8	4.5	3.5	4.5	4.2	4.0	4.0	4.0	4.0	3.0	3.8	4.0	4.0	4.5	3.5	3.5	3.9	3.0	14.1	
Nepal	4.0	4.0	4.0	4.0	4.5	4.0	3.5	4.0	4.0	4.5	4.0	4.0	4.5	4.2	3.0	4.0	5.0	3.5	3.5	3.8	3.5	14.8	
Tajikistan	4.0	4.0	4.0	4.0	4.0	3.5	3.5	3.7	3.5	3.5	3.5	3.5	3.0	3.4	3.5	4.0	3.5	3.5	3.0	3.5	4.5	13.7	
Average	4.2	3.8	3.9	4.0	4.1	3.4	3.6	3.7	3.8	3.9	4.0	3.6	3.7	3.8	3.4	3.8	4.0	3.6	3.3	3.6	3.4	13.5	
Group B Countries																							
Armenia	4.5	5.0	5.0	4.8	5.0	4.5	4.5	4.7	4.5	5.0	4.5	5.0	4.0	4.6	3.5	4.5	4.5	4.5	3.0	4.0	3.5	17.2	
Bangladesh	4.5	4.0	4.5	4.3	3.0	4.0	3.0	3.3	4.0	4.5	4.0	4.0	4.0	4.1	4.0	4.0	3.5	3.5	4.0	3.8	4.5	15.5	
Georgia	4.5	4.5	4.5	4.5	5.5	3.5	5.5	4.8	4.5	5.0	5.0	4.5	3.5	4.5	4.0	4.5	5.0	4.0	4.0	4.3	3.0	17.4	
Pakistan	4.5	3.5	4.5	4.2	3.5	4.5	4.0	4.0	2.5	4.0	3.0	3.0	4.0	3.3	3.0	4.5	3.5	3.5	3.5	3.6	3.0	12.8	
Sri Lanka	4.0	3.0	3.0	3.3	3.5	4.0	3.5	3.7	4.0	4.0	4.0	3.5	3.5	3.8	3.5	4.0	3.5	3.5	3.0	3.5	3.5	12.5	
Uzbekistan	4.5	4.5	4.5	4.5	3.5	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	3.5	4.0	4.0	3.0	2.5	3.4	3.5	13.1	
Viet Nam	4.5	4.5	4.5	4.5	4.0	4.5	4.0	4.2	4.5	5.0	4.5	4.5	4.5	4.6	4.5	4.5	4.0	4.0	4.0	4.2	3.5	17.3	
Average	4.4	4.1	4.4	4.3	4.0	4.1	4.0	4.0	4.0	4.5	4.1	4.1	3.9	4.1	3.7	4.3	4.0	3.7	3.4	3.8	3.5	15.1	
Average Non-Pacific	4.3	4.0	4.1	4.1	4.0	3.7	3.8	3.8	3.9	4.2	4.1	3.8	3.8	3.9	3.5	4.0	4.0	3.7	3.4	3.7	3.4	14.2	
AVERAGE (All)	3.8	3.4	3.7	3.6	3.9	3.4	3.3	3.5	3.5	3.8	3.7	3.4	3.4	3.5	3.4	3.7	3.7	3.3	3.3	3.5	3.4	12.4	

CCPR = composite country performance rating, DMC = developing member country, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.
 Note: CCPR is computed as (policy and institutional rating)^{0.70} x (public sector management and institutions average) x (portfolio rating)^{0.30}, where the policy and institutional rating is the unweighted average of the scores for clusters A to C.
 Source: Asian Development Bank.

POST-CONFLICT COUNTRY PERFORMANCE ASSESSMENT RATINGS, 2010

Post-Conflict Performance Indicators ^a	Afghanistan
Progress in Post-Conflict Recovery (average of A, B , C and D)	3.7
A. Security and Reconciliation	2.3
1. Public Security	1.5
2. Reconciliation	3.0
3. Disarmament, Demobilization, and Reintegration	2.5
B. Economic Recovery	5.0
4. Management of Inflation, External Debt, and Adequacy of the Budget	5.0
5. Trade Policy, Foreign Exchange, and Price Regimes	5.0
6. Management and Sustainability of Post-Conflict Reconstruction Program	5.0
C. Social Exclusion and Social Development	3.7
7. Reintegration of Displaced Populations	3.5
8. Building Human Resources	4.0
9. Social Cohesion, Nondiscrimination, and Human Rights	3.5
D. Public Sector Management and Institutions	3.8
10. Budgetary and Financial Management, and Efficiency of Revenue Mobilization	4.5
11. Reestablishing Public Administration and Rule-Based Governance	3.5
12. Transparency, Accountability, and Corruption in the Public Sector	3.5
Quality of Portfolio Performance	3.0

^a These post-conflict performance indicators follow the International Development Association's indicators.
Source: Asian Development Bank.

2010 Country Rankings by Performance Indicator

Economic Management		Structural Policies		Policies for Social Inclusion/Equity		Public Sector Management and Institutions		Portfolio Performance		CCPR	
Armenia	4.8	Georgia	4.8	Viet Nam	4.6	Bhutan	4.7	Bangladesh	4.5	Bhutan	17.6
Bhutan	4.5	Armenia	4.7	Armenia	4.6	Georgia	4.3	Tajikistan	4.5	Georgia	17.4
Georgia	4.5	Kyrgyz Republic	4.2	Georgia	4.5	Viet Nam	4.2	Lao PDR	4.0	Viet Nam	17.3
Uzbekistan	4.5	Mongolia	4.2	Bhutan	4.4	Armenia	4.0	Papua New Guinea	4.0	Armenia	17.2
Viet Nam	4.5	Samoa	4.2	Nepal	4.2	Samoa	4.0	Armenia	3.5	Bangladesh	15.5
Bangladesh	4.3	Viet Nam	4.2	Bangladesh	4.1	Mongolia	3.9	Cambodia	3.5	Lao PDR	15.1
Cambodia	4.2	Cambodia	4.0	Lao PDR	4.1	Tonga	3.9	Kiribati	3.5	Nepal	14.8
Kyrgyz Republic	4.2	Nepal	4.0	Cambodia	4.0	Bangladesh	3.8	Kyrgyz Republic	3.5	Samoa	14.7
Lao PDR	4.2	Pakistan	4.0	Kyrgyz Republic	4.0	Lao PDR	3.8	Marshall Islands	3.5	Cambodia	14.4
Pakistan	4.2	Lao PDR	3.7	Uzbekistan	4.0	Nepal	3.8	FSM	3.5	Mongolia	14.1
Nepal	4.0	Sri Lanka	3.7	Mongolia	3.8	Cambodia	3.7	Nauru	3.5	Tajikistan	13.7
Tajikistan	4.0	Tajikistan	3.7	Sri Lanka	3.8	Maldives	3.6	Nepal	3.5	Uzbekistan	13.1
Mongolia	3.8	Bhutan	3.5	Samoa	3.8	Pakistan	3.6	Palau	3.5	Pakistan	12.8
Vanuatu	3.8	Maldives	3.5	Maldives	3.7	Sri Lanka	3.5	Samoa	3.5	Sri Lanka	12.5
Papua New Guinea	3.7	Solomon Islands	3.5	Tajikistan	3.4	Tajikistan	3.5	Sri Lanka	3.5	Tonga	12.4
Afghanistan	3.5	Tonga	3.5	Pakistan	3.3	Uzbekistan	3.4	Timor-Leste	3.5	Kyrgyz Republic	12.1
Maldives	3.5	Uzbekistan	3.5	Palau	3.3	Tuvalu	3.3	Uzbekistan	3.5	Maldives	11.5
Solomon Islands	3.5	Bangladesh	3.3	Tonga	3.3	Vanuatu	3.3	Vanuatu	3.5	Vanuatu	11.1
Samoa	3.3	FSM	3.3	Tuvalu	3.3	Nauru	3.2	Viet Nam	3.5	Papua New Guinea	11.0
Sri Lanka	3.3	Papua New Guinea	3.3	Nauru	3.1	Papua New Guinea	3.2	Afghanistan	3.0	Solomon Islands	9.9
Timor-Leste	3.3	Vanuatu	3.3	Kiribati	3.0	Kyrgyz Republic	3.1	Bhutan	3.0	Palau	9.8
Tonga	3.0	Palau	3.0	Solomon Islands	2.9	Palau	3.1	Georgia	3.0	Nauru	9.1
Palau	2.8	Timor-Leste	3.0	Timor-Leste	2.8	Solomon Islands	3.1	Mongolia	3.0	Tuvalu	9.0
Marshall Islands	2.7	Marshall Islands	2.8	Vanuatu	2.8	Kiribati	2.8	Pakistan	3.0	Timor-Leste	8.3
Tuvalu	2.7	Afghanistan	2.7	Marshall Islands	2.7	FSM	2.8	Solomon Islands	3.0	FSM	8.2
Kiribati	2.5	Kiribati	2.7	Papua New Guinea	2.7	Marshall Islands	2.7	Tonga	3.0	Kiribati	8.2
FSM	2.3	Tuvalu	2.5	Afghanistan	2.6	Afghanistan	2.6	Maldives	2.5	Marshall Islands	7.9
Nauru	2.3	Nauru	2.3	FSM	2.5	Timor-Leste	2.6	Tuvalu	2.5	Afghanistan	7.7

CCPR = composite country performance rating, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.

Notes: (i) CCPR is computed as (policy and institutional rating)^{0.70} x (public sector management and institutions average) x (portfolio rating)^{0.30}, where the policy and institutional rating is the unweighted average of the scores for clusters A to C, economic management, structural policies, and policies for social inclusion and equity; (ii) countries are ranked in descending order by score; when scores are equal, countries are listed alphabetically.

Source: Asian Development Bank.