



ADB

May 2010

Annual Report on the 2009 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
IDA	–	International Development Association
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. Under the performance-based allocation (PBA) policy for the Asian Development Fund (ADF), the Asian Development Bank (ADB) links the allocation of ADF resources to country performance.¹ This system is based on the principle that aid is most effective in accelerating poverty reduction in countries where policy and institutional performance is strong. Under the PBA system, ADB gauges the relative performance of eligible borrowers with access to ADF by conducting annual country performance assessments (CPAs). This annual report provides information on the conduct and results of the 2009 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 (DMCs) with access to the ADF.² The 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 project 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 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), Office of Regional Economic Integration (OREI), and Regional and Sustainable Development

¹ The system was adopted in 2001. The PBA 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 2009, 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.

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 cross-country consistency. 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.

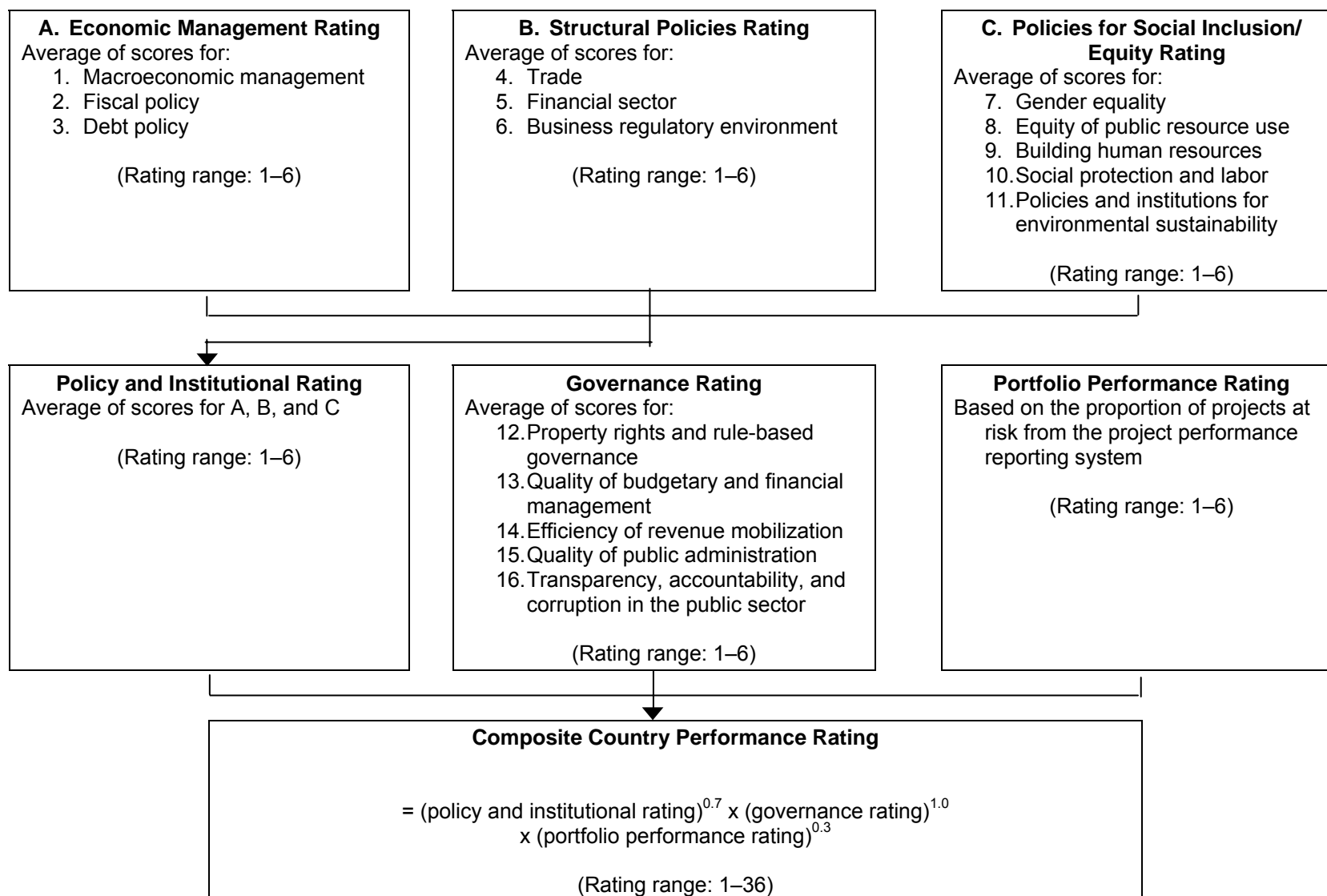
D. Harmonization of Performance-Based Allocation System with Other Multilateral Development Banks

5. ADB continues to harmonize its ADF allocation and grant policies with other MDBs, particularly the World Bank's IDA and the African Development Bank. In addition to adopting the IDA's country policy and institutional assessment questionnaires for the CPA exercise, ADB has introduced a new conversion scale to reduce the volatility of portfolio performance ratings within the PBA system in line with IDA's approach. Close collaboration with other MDBs is being maintained through annual joint technical workshops and/or meetings on PBA and debt issues.

III. 2009 COUNTRY PERFORMANCE ASSESSMENT EXERCISE AND FUTURE ARRANGEMENT

6. The 2009 CPA exercise followed the same rigorous and transparent process adopted in earlier CPA exercises. The 2009 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 2009 CPA exercise. Appendix 4 shows country rankings for each performance indicator cluster and the overall ranking. In accordance with the PBA policy, this CPA annual report, including the 2009 CPA ratings, will be disclosed publicly. The annual 2010 CPA exercise schedule started in March 2010. The final 2011–2012 ADF allocation will be made by 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:

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

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 CCPR 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 Asian Development Fund commitment authority.

COUNTRY PERFORMANCE ASSESSMENT RATINGS, 2009

Country	A. Economic Management				B. Structural Policies				C. Policies for Social Inclusion/Equity					D. Public Sector Management and Institutions							CCPR		
	1 Macroeconomic Management	2 Fiscal Policy	3 Debt Policy	Average	4 Trade	5 Financial Sector	6 Business Regulatory Environment	Average	7 Gender Equality	8 Equity of Public Resource Use	9 Building Human Resources	10 Social Protection and Labor	11 Policies and Institutions for Environmental Sustainability	Average	12 Property Rights & Rule-Based Governance	13 Quality of Budget and Financial Management	14 Efficiency of Revenue Mobilization	15 Quality of Public Admin.	16 Transparency, Accountability, and Corruption in the public Sector	Average		17 Portfolio	
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	3.0	3.0	2.9	3.5	8.5	
Marshall Islands	2.0	2.0	2.0	2.0	3.0	3.0	2.5	2.8	3.0	2.5	3.0	3.0	3.0	2.9	3.5	2.5	3.0	2.0	2.5	2.7	3.5	7.6	
FSM	2.5	2.0	2.5	2.3	4.0	3.5	2.5	3.3	3.0	2.0	2.5	2.5	2.5	2.5	3.5	2.5	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	2.5	3.0	3.0	3.0	2.5	4.0	3.0	3.0	3.0	3.1	3.5	8.7	
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	4.0	2.5	3.0	3.0	3.2	3.5	10.2	
Papua New Guinea	4.0	3.5	4.0	3.8	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	11.2	
Samoa	3.0	3.0	3.5	3.2	4.5	4.0	3.5	4.0	3.5	4.0	4.0	3.0	3.0	3.5	4.0	3.5	4.5	4.0	4.0	4.0	3.5	14.2	
Solomon Islands	3.5	3.0	4.0	3.5	4.0	3.5	2.5	3.3	3.0	3.5	2.5	2.5	3.0	2.9	3.0	3.5	3.0	2.5	3.0	3.0	3.5	10.0	
Timor-Leste	3.5	3.0	4.0	3.5	4.5	2.5	1.5	2.8	3.0	4.0	3.0	2.5	2.5	3.0	1.5	3.0	3.0	2.5	2.5	2.5	3.5	8.1	
Tonga	3.0	3.5	3.0	3.2	4.0	4.0	3.5	3.8	3.0	3.5	3.5	2.5	3.0	3.1	4.0	3.5	4.5	4.0	3.5	3.9	3.5	13.3	
Tuvalu	3.5	3.0	3.0	3.2	3.5	2.5	2.5	2.8	3.0	3.5	3.5	3.0	3.0	3.2	4.0	3.0	3.0	3.0	3.0	3.2	4.5	11.0	
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	3.0	3.0	3.0	3.0	3.1	3.5	10.5	
Average	3.1	2.8	3.2	3.0	3.8	3.0	2.6	3.1	3.0	3.3	3.0	2.9	2.8	3.0	3.3	3.2	3.3	2.9	3.0	3.1	3.6	10.1	
Group A Countries																							
Afghanistan	3.5	3.5	3.5	3.5	2.5	2.5	2.5	2.5	2.0	3.0	3.0	2.5	2.5	2.6	1.5	3.0	2.5	2.5	2.0	2.3	3.0	6.7	
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	4.0	3.5	3.8	4.0	4.5	4.5	3.5	3.5	4.0	3.0	4.0	4.0	3.5	3.0	3.5	3.5	13.5	
Kyrgyz Republic	4.5	4.0	4.5	4.3	5.0	4.0	4.0	4.3	4.5	3.5	4.0	4.0	4.0	4.0	3.0	3.5	3.5	3.0	3.0	3.2	3.5	12.8	
Lao PDR	4.5	4.0	4.0	4.2	4.0	3.5	3.5	3.7	4.0	4.5	4.0	3.5	4.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	13.3	
Maldives	2.5	2.0	3.0	2.5	3.0	3.0	4.0	3.3	3.5	4.0	4.0	3.5	3.5	3.7	3.0	3.0	3.0	3.0	2.5	2.9	2.5	8.6	
Mongolia	3.5	3.5	4.0	3.7	4.5	3.0	4.0	3.8	3.5	4.0	4.0	4.0	3.0	3.7	3.5	4.0	4.5	3.5	3.5	3.8	4.5	15.0	
Nepal	4.5	4.5	4.0	4.3	4.5	4.0	3.5	4.0	4.0	4.0	4.0	3.5	4.5	4.0	3.5	4.0	4.5	3.5	3.5	3.8	3.5	14.9	
Tajikistan	4.0	4.0	3.5	3.8	4.0	3.5	3.0	3.5	3.5	3.5	3.5	3.5	2.5	3.3	3.0	4.0	3.0	3.0	2.5	3.1	3.5	10.9	
Average	4.0	3.8	3.9	3.9	3.9	3.4	3.5	3.6	3.7	3.9	3.9	3.6	3.6	3.7	3.2	3.7	3.7	3.4	3.1	3.4	3.4	12.6	
Group B Countries																							
Armenia	4.5	5.0	5.5	5.0	4.5	3.5	4.0	4.0	4.5	4.5	4.0	4.5	3.5	4.2	3.5	4.5	4.0	4.0	3.0	3.8	3.0	14.9	
Bangladesh	4.5	4.0	4.5	4.3	3.0	3.5	3.0	3.2	4.0	4.5	4.0	4.0	3.5	4.0	4.0	4.0	3.5	3.5	4.0	3.8	4.0	14.8	
Georgia	4.5	4.5	4.5	4.5	5.5	3.5	5.5	4.8	4.5	5.0	5.0	4.0	3.5	4.4	3.5	4.5	5.0	4.0	3.5	4.1	3.5	17.3	
Pakistan	4.5	3.5	4.5	4.2	4.0	4.0	4.0	4.0	3.0	4.0	3.0	3.0	4.0	3.4	3.0	4.0	3.5	3.5	3.0	3.4	3.0	12.2	
Sri Lanka	3.0	2.5	3.0	2.8	3.5	4.0	3.5	3.7	4.0	4.0	4.0	3.5	3.5	3.8	3.0	4.0	3.5	3.0	3.0	3.3	3.5	11.4	
Uzbekistan	4.5	4.5	4.5	4.5	3.5	3.0	3.5	3.3	4.0	4.0	4.0	4.0	4.0	4.0	3.5	4.0	4.0	2.5	2.5	3.3	3.0	12.0	
Viet Nam	4.5	4.5	4.5	4.5	3.5	4.5	3.5	3.8	4.5	5.0	4.5	4.5	4.5	4.6	4.5	4.0	4.0	4.0	4.0	4.1	3.5	16.6	
Average	4.3	4.1	4.4	4.3	3.9	3.7	3.9	3.8	4.1	4.4	4.1	3.9	3.8	4.1	3.6	4.1	3.9	3.5	3.3	3.7	3.4	14.2	
Ave. Group A & B	4.1	3.9	4.1	4.1	3.9	3.5	3.7	3.7	3.9	4.1	4.0	3.7	3.7	3.9	3.3	3.9	3.8	3.4	3.2	3.5	3.4	13.3	
Average (All)	3.7	3.4	3.7	3.6	3.9	3.3	3.2	3.5	3.5	3.8	3.6	3.4	3.3	3.5	3.3	3.6	3.6	3.2	3.1	3.4	3.5	11.9	

CCPR = composite country performance rating; FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.
Source: Asian Development Bank.

COUNTRY RATINGS BY PERFORMANCE INDICATOR CLUSTERS AND OVERALL RANKING, 2009

Economic Management		Structural Policies		Policies for Social Inclusion/Equity		Governance		Portfolio Performance		Country Composite Performance Rating	
Armenia	5.0	Georgia	4.8	Viet Nam	4.6	Bhutan	4.7	Mongolia	4.5	Bhutan	17.65
Bhutan	4.5	Kyrgyz Republic	4.3	Bhutan	4.4	Georgia	4.1	Tuvalu	4.5	Georgia	17.32
Georgia	4.5	Armenia	4.0	Georgia	4.4	Viet Nam	4.1	Bangladesh	4.0	Viet Nam	16.60
Uzbekistan	4.5	Nepal	4.0	Armenia	4.2	Samoa	4.0	Papua New Guinea	4.0	Mongolia	15.00
Viet Nam	4.5	Pakistan	4.0	Bangladesh	4.0	Tonga	3.9	Cambodia	3.5	Armenia	14.91
Bangladesh	4.3	Samoa	4.0	Cambodia	4.0	Armenia	3.8	Georgia	3.5	Nepal	14.89
Kyrgyz Republic	4.3	Cambodia	3.8	Lao PDR	4.0	Bangladesh	3.8	Kiribati	3.5	Bangladesh	14.75
Nepal	4.3	Mongolia	3.8	Nepal	4.0	Mongolia	3.8	Kyrgyz Republic	3.5	Samoa	14.16
Cambodia	4.2	Tonga	3.8	Kyrgyz Republic	4.0	Nepal	3.8	Lao PDR	3.5	Cambodia	13.45
Lao PDR	4.2	Viet Nam	3.8	Uzbekistan	4.0	Cambodia	3.5	Marshall Islands	3.5	Lao PDR	13.32
Pakistan	4.2	Lao PDR	3.7	Sri Lanka	3.8	Lao PDR	3.5	FSM	3.5	Tonga	13.28
Papua New Guinea	3.8	Sri Lanka	3.7	Mongolia	3.7	Pakistan	3.4	Nauru	3.5	Kyrgyz Republic	12.77
Tajikistan	3.8	Bhutan	3.5	Maldives	3.7	Sri Lanka	3.3	Nepal	3.5	Pakistan	12.16
Vanuatu	3.8	Tajikistan	3.5	Samoa	3.5	Uzbekistan	3.3	Palau	3.5	Uzbekistan	11.99
Mongolia	3.7	Maldives	3.3	Pakistan	3.4	Kyrgyz Republic	3.2	Samoa	3.5	Sri Lanka	11.40
Afghanistan	3.5	FSM	3.3	Palau	3.3	Palau	3.2	Solomon Islands	3.5	Papua New Guinea	11.16
Solomon Islands	3.5	Papua New Guinea	3.3	Tajikistan	3.3	Papua New Guinea	3.2	Sri Lanka	3.5	Tuvalu	11.01
Timor-Leste	3.5	Solomon Islands	3.3	Tuvalu	3.2	Tuvalu	3.2	Tajikistan	3.5	Tajikistan	10.95
Samoa	3.2	Uzbekistan	3.3	Tonga	3.1	Nauru	3.1	Timor-Leste	3.5	Vanuatu	10.46
Tonga	3.2	Vanuatu	3.3	Kiribati	3.0	Tajikistan	3.1	Tonga	3.5	Palau	10.16
Tuvalu	3.2	Bangladesh	3.2	Nauru	3.0	Vanuatu	3.1	Vanuatu	3.5	Solomon Islands	9.96
Palau	2.8	Palau	3.0	Timor-Leste	3.0	Solomon Islands	3.0	Viet Nam	3.5	Nauru	8.71
Sri Lanka	2.8	Marshall Islands	2.8	Marshall Islands	2.9	Kiribati	2.9	Afghanistan	3.0	Maldives	8.58
Kiribati	2.5	Timor-Leste	2.8	Solomon Islands	2.9	Maldives	2.9	Armenia	3.0	Kiribati	8.51
Maldives	2.5	Tuvalu	2.8	Vanuatu	2.8	FSM	2.8	Bhutan	3.0	FSM	8.22
FSM	2.3	Kiribati	2.7	Papua New Guinea	2.7	Marshall Islands	2.7	Pakistan	3.0	Timor-Leste	8.06
Nauru	2.3	Afghanistan	2.5	Afghanistan	2.6	Timor-Leste	2.5	Uzbekistan	3.0	Marshall Islands	7.63
Marshall Islands	2.0	Nauru	2.3	FSM	2.5	Afghanistan	2.3	Maldives	2.5	Afghanistan	6.68

FSM = 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.

Source: Asian Development Bank.