



April 2013

Annual Report on the 2012 Country Performance Assessment Exercise

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPA	–	country performance assessment
DMC	–	developing member country
ERD	–	Economics and Research Department
MDB	–	multilateral development bank
OREI	–	Office of Regional Economic Integration
OSFMD	–	Operations Services and Financial Management Department
PBA	–	performance-based allocation
PCPI	–	Post-Conflict Performance Indicators
RSDD	–	Regional and Sustainable Development Department

NOTE

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

Director General	K. Sakai, Strategy and Policy Department (SPD)
Director	H. Wei, Operations Planning and Coordination Division, SPD
Team Leader	C. Liu, Principal Economist, SPD
Team Members	I. De Guzman, Associate Strategy and Policy Officer, SPD R. Garibay, Strategy and Policy Assistant, SPD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
I. INTRODUCTION	1
II. THE PERFORMANCE-BASED ALLOCATION SYSTEM	1
A. Country Performance Assessments	1
B. Resource Allocation	1
C. Implementation Arrangements	1
D. Harmonization of the Performance-Based Allocation System with Other Multilateral Development Banks	2
III. 2012 COUNTRY PERFORMANCE ASSESSMENT	2
 APPENDIXES	
1. Calculation of the Composite Country Performance Rating	3
2. Allocation Formula for Asian Development Fund Resources	4
3. Country Performance Assessment Ratings, 2012	5
4. Post-Conflict Country Performance Assessment Ratings, 2012	6
5. 2012 Country Rankings by Performance Indicator	7

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) and uses the CPA results to derive ADF allocations. This annual report provides information on the conduct and results of the 2012 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 the 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.³ The method of calculating the composite country performance rating is in Appendix 1.

B. Resource Allocation

3. The PBA system uses an allocation formula to derive ADF allocations. The system includes the ADF grant framework under which the proportion of grants in the country allocation is determined based on the debt distress classification.⁴ 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 in the Strategy and Policy Department, which is outside the regional departments. The revised PBA policy instituted this arrangement to separate ADF resource allocation from ADF resource use. Representatives of the regional departments are included in the CPA working group, along with experts from the Economics and Research Department (ERD), Office of Regional Economic Integration (OREI),

¹ The system was adopted in 2001. The performance-based allocation system 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; ADB. 2008. *Refining the Performance-Based Allocation of Asian Development Fund Resources*. Manila.

² As of 1 January 2012, 28 DMCs had access to the ADF.

³ This CPA exercise used the 2010 country policy and institutional assessment questionnaire.

⁴ ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila.

Operations Services and Financial Management Department (OSFMD),⁵ and Regional and Sustainable Development Department (RSDD). A technical subgroup consisting of experts from ERD, OREI, OSFMD, 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, ERD, OREI, OSFMD, and RSDD—finalizes the ratings for ADB Management endorsement.

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

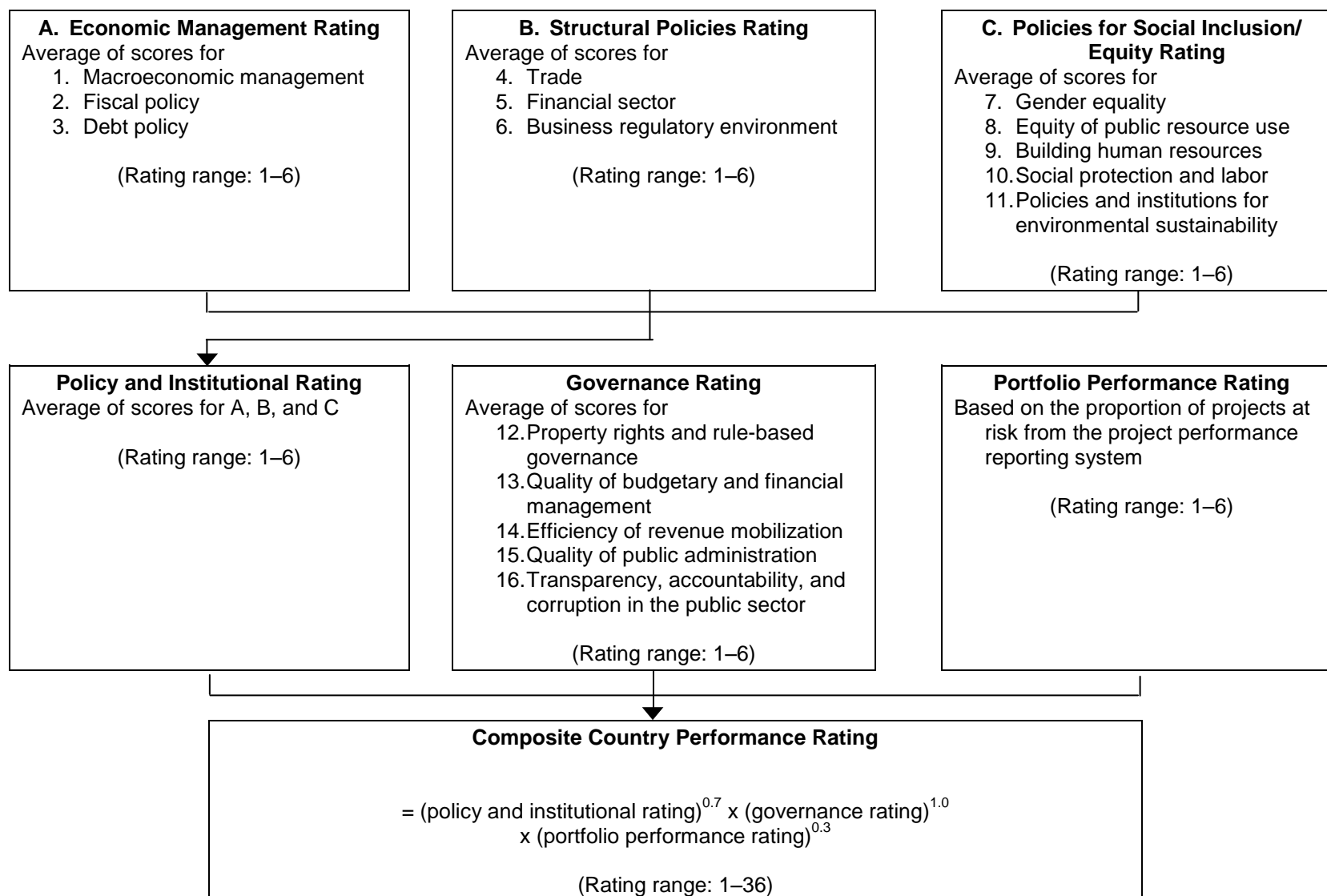
5. ADB continues to harmonize its ADF allocation and grant policies with other MDBs. Close collaboration with other MDBs is being maintained through annual joint technical workshops and/or meetings on PBA and debt issues. In May 2012, the Strategy and Policy Department represented ADB in the eighth MDB and multilateral financial institution technical workshop on PBA co-hosted by the Inter-American Development Bank and the World Bank in Washington, DC, to discuss issues of common interest regarding PBA systems.

III. 2012 COUNTRY PERFORMANCE ASSESSMENT

6. The 2012 CPA exercise followed the rigorous and transparent process described in para. 4. The 2012 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 2012 CPA exercise. The results of a post-conflict performance assessment for Afghanistan are reported separately in Appendix 4. Appendix 5 shows country rankings for each performance indicator cluster and the overall ranking. In accordance with the PBA policy, this CPA annual report, including the 2012 CPA ratings, will be disclosed to the public. The 2013–2014 ADF country allocation was made according to the allocation formula (para. 3), based on the 2012 CPA exercise outcome and the estimate of the ADF commitment authority for 2013–2014.

⁵ Formerly the Central Operations Services Office.

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, 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:

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

This 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.¹

¹ Net of the set-asides for subregional projects and post-conflict premium for Afghanistan.

COUNTRY PERFORMANCE ASSESSMENT RATINGS, 2012

DMCs	A. Economic Management				B. Structural Policies				C. Policies for Social Inclusion/Equity						D. Public Sector Management and Institutions						CCPR	
	1	2	3	Average	4	5	6	Average	7	8	9	10	11	Average	12	13	14	15	16	Average		17
	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	Environmental Sustainability		Policies and Institutions for Environmental Sustainability	Property Rights and Rule-based Governance	Quality of Public Administration	Budgetary and Financial Management	Quality of Revenue Mobilization			Efficiency of Revenue
Pacific Countries																						
Kiribati	3.0	3.0	3.5	3.2	3.0	3.0	2.5	2.8	3.5	3.0	3.0	3.0	3.0	3.1	3.0	2.0	3.0	3.0	3.0	2.8	3.5	8.9
Marshall Islands	2.5	2.5	3.0	2.7	3.5	3.0	2.5	3.0	3.0	2.0	2.5	3.0	2.5	2.6	3.5	3.0	3.0	2.0	2.5	2.8	3.5	8.3
FSM	2.5	2.5	2.5	2.5	4.0	3.5	2.5	3.3	3.0	2.5	2.5	2.0	3.0	2.6	3.0	3.0	3.0	2.0	3.0	2.8	3.5	8.4
Nauru	3.0	2.5	2.0	2.5	4.0	1.0	2.0	2.3	3.5	3.5	3.0	3.5	2.5	3.2	2.5	4.0	3.0	3.0	3.5	3.2	3.5	9.3
Palau	3.5	2.5	4.0	3.3	4.0	3.5	2.5	3.3	3.0	3.5	4.0	4.0	4.0	3.7	4.0	3.5	3.5	3.0	3.0	3.4	3.5	11.8
Papua New Guinea	4.0	3.5	4.5	4.0	4.5	3.0	3.0	3.5	2.5	3.5	2.5	3.0	2.5	2.8	2.5	3.5	4.0	2.5	3.0	3.1	2.5	9.7
Samoa	4.0	3.5	3.5	3.7	5.0	4.0	3.5	4.2	3.5	4.5	4.5	3.5	4.0	4.0	4.0	3.5	4.5	4.0	4.0	4.0	3.0	14.5
Solomon Islands	3.5	3.5	4.5	3.8	4.0	3.5	3.5	3.7	3.0	3.5	3.0	2.5	2.5	2.9	3.5	3.5	3.0	2.5	3.0	3.1	4.5	11.6
Timor-Leste	3.5	4.0	4.5	4.0	4.5	2.5	2.5	3.2	3.5	3.5	3.0	3.0	2.5	3.1	3.0	3.0	4.0	3.0	3.0	3.2	3.5	11.0
Tonga	3.5	3.5	3.0	3.3	4.5	3.5	3.0	3.7	3.0	4.0	4.0	3.0	4.0	3.6	3.5	4.0	4.5	4.0	3.5	3.9	3.5	13.7
Tuvalu	3.5	3.0	2.0	2.8	3.5	2.5	2.5	2.8	3.0	3.5	4.0	3.5	3.0	3.4	4.0	2.5	3.0	3.5	3.0	3.2	3.5	10.1
Vanuatu	4.0	3.5	4.0	3.8	3.0	3.5	3.0	3.2	3.0	3.0	2.5	3.0	2.5	2.8	3.0	3.5	2.5	3.5	2.5	3.0	3.5	10.0
Average	3.4	3.1	3.4	3.3	4.0	3.0	2.8	3.3	3.1	3.3	3.2	3.1	3.0	3.2	3.3	3.3	3.4	3.0	3.1	3.2	3.5	10.6
Group A Countries																						
Afghanistan	3.5	3.5	3.5	3.5	3.5	2.0	3.0	2.8	2.0	3.5	3.5	3.0	2.5	2.9	1.5	4.0	3.5	3.0	2.5	2.9	3.5	9.3
Bhutan	4.5	4.5	4.5	4.5	4.0	3.5	3.5	3.7	4.5	4.5	5.0	4.5	5.5	4.8	4.5	4.5	5.0	5.5	4.5	4.8	3.5	19.5
Cambodia	4.5	4.5	5.0	4.7	4.5	4.5	3.5	4.2	4.5	4.5	4.5	3.5	3.5	4.1	3.5	4.5	4.0	4.0	4.0	4.0	3.0	15.5
Kyrgyz Republic	4.5	4.0	4.5	4.3	5.0	3.5	4.0	4.2	4.5	4.0	4.5	5.0	4.0	4.4	3.5	3.5	4.0	4.0	4.0	3.8	3.0	14.7
Lao PDR	4.5	4.0	4.0	4.2	4.5	3.5	3.5	3.8	4.5	4.5	4.5	3.5	4.0	4.2	4.0	4.0	4.0	4.5	3.5	4.0	3.5	15.6
Maldives	4.0	3.5	3.0	3.5	4.0	3.0	4.0	3.7	4.0	4.5	4.5	4.0	4.0	4.2	4.0	3.0	4.0	4.0	3.0	3.6	2.5	12.0
Nepal	4.5	4.0	4.5	4.3	4.5	4.0	3.5	4.0	4.5	5.0	4.0	4.5	4.5	4.5	3.0	4.0	5.0	3.5	3.5	3.8	3.0	14.6
Tajikistan	4.0	4.0	4.0	4.0	4.0	3.5	4.0	3.8	3.5	4.0	3.5	3.5	3.0	3.5	3.5	4.0	3.5	3.5	3.0	3.5	4.0	13.5
Average	4.3	4.0	4.1	4.1	4.3	3.4	3.6	3.8	4.0	4.3	4.3	3.9	3.9	4.1	3.4	3.9	4.1	4.0	3.5	3.8	3.3	14.3
Group B Countries																						
Armenia	4.0	5.0	5.0	4.7	5.0	4.5	4.5	4.7	4.5	5.0	5.0	5.0	4.0	4.7	3.5	4.5	4.5	4.5	3.0	4.0	3.0	16.4
Bangladesh	4.5	4.0	4.5	4.3	3.0	4.0	3.0	3.3	4.5	4.5	4.5	4.0	4.0	4.3	4.0	4.0	4.0	3.5	4.0	3.9	3.0	14.3
Georgia	4.5	4.5	5.0	4.7	5.5	3.5	5.5	4.8	4.5	4.5	4.5	4.5	3.0	4.2	4.0	5.0	5.5	4.5	4.0	4.6	3.5	19.4
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	4.0	3.5	4.0	3.5	15.2
Pakistan	4.0	3.5	4.0	3.8	3.5	4.0	4.0	3.8	2.5	4.0	3.0	3.5	4.0	3.4	3.0	4.5	3.5	3.5	3.5	3.6	3.0	12.5
Sri Lanka	4.5	4.0	4.0	4.2	4.5	4.0	4.0	4.2	4.0	4.5	4.5	3.5	4.0	4.1	4.0	4.0	4.0	3.5	3.5	3.8	4.0	15.6
Uzbekistan	5.0	5.0	5.0	5.0	3.0	4.0	4.0	3.7	4.0	4.0	4.5	4.0	4.0	4.1	4.0	4.5	4.0	3.0	2.5	3.6	3.0	13.8
Viet Nam	4.5	4.5	4.5	4.5	4.0	4.5	4.0	4.2	5.0	5.5	5.0	4.5	4.5	4.9	4.5	4.5	4.5	4.5	4.0	4.4	3.0	17.6
Average	4.4	4.3	4.5	4.4	4.1	4.0	4.2	4.1	4.1	4.5	4.4	4.1	3.8	4.2	3.9	4.4	4.3	3.9	3.5	4.0	3.3	15.6
Average Non-Pacific	4.3	4.1	4.3	4.3	4.2	3.7	3.9	3.9	4.1	4.4	4.3	4.0	3.8	4.1	3.7	4.2	4.2	3.9	3.5	3.9	3.3	15.0
Average (All)	3.9	3.7	3.9	3.8	4.1	3.4	3.4	3.6	3.7	3.9	3.8	3.6	3.5	3.7	3.5	3.8	3.9	3.5	3.3	3.6	3.3	13.1

CCPR = composite country performance rating, DMC = developing member country, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.
 Note: The 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–C.
 Source: Asian Development Bank.

POST-CONFLICT COUNTRY PERFORMANCE ASSESSMENT RATINGS, 2012

Post-Conflict Performance Indicators	Afghanistan
Cluster A: Economic Management and Structural Policies	4.5
1. Macroeconomic management	4.0
2. Debt management	5.0
3. Functioning of public administration	5.0
4. Business environment	4.0
Cluster B: Social Inclusion and Human Development	4.0
5. Human resource building	4.0
6. Vulnerable groups, gender, and social cohesion	4.0
Cluster C: Governance	3.7
7. Capacity of public administration	4.0
8. Rule of law and personal security	3.0
9. Accountability and transparency	4.0
Cluster D: Post-conflict Risk	2.5
10. Security	2.5
11. Management of conflict and recovery	2.0
12. Peace building	3.0
Overall PCPI	3.7
Quality of Portfolio Performance	3.5
Overall Score	3.6
<p>PCPI = post-conflict performance indicators.</p> <p>Note: The overall PCPI score is computed by taking the average of clusters A–D. The overall score is computed in accordance with the International Development Association’s post-conflict framework by giving 20% weight to the portfolio.</p>	

2012 COUNTRY RANKINGS BY PERFORMANCE INDICATOR

Economic Management		Structural Policies		Policies for Social Inclusion and Equity		Public Sector Management and Institutions		Portfolio Performance		CCPR	
Uzbekistan	5.0	Georgia	4.8	Viet Nam	4.9	Bhutan	4.8	Solomon Islands	4.5	Bhutan	19.5
Armenia	4.7	Armenia	4.7	Bhutan	4.8	Georgia	4.6	Sri Lanka	4.0	Georgia	19.4
Cambodia	4.7	Cambodia	4.2	Armenia	4.7	Viet Nam	4.4	Tajikistan	4.0	Viet Nam	17.6
Georgia	4.7	Kyrgyz Republic	4.2	Nepal	4.5	Armenia	4.0	Afghanistan	3.5	Armenia	16.4
Bhutan	4.5	Mongolia	4.2	Kyrgyz Republic	4.4	Cambodia	4.0	Bhutan	3.5	Lao PDR	15.6
Viet Nam	4.5	Samoa	4.2	Bangladesh	4.3	Lao PDR	4.0	Georgia	3.5	Sri Lanka	15.6
Bangladesh	4.3	Sri Lanka	4.2	Georgia	4.2	Mongolia	4.0	Kiribati	3.5	Cambodia	15.5
Kyrgyz Republic	4.3	Viet Nam	4.2	Lao PDR	4.2	Samoa	4.0	Lao PDR	3.5	Mongolia	15.2
Nepal	4.3	Nepal	4.0	Maldives	4.2	Bangladesh	3.9	Marshall Islands	3.5	Kyrgyz Republic	14.7
Lao PDR	4.2	Lao PDR	3.8	Cambodia	4.1	Tonga	3.9	FSM	3.5	Nepal	14.6
Sri Lanka	4.2	Pakistan	3.8	Sri Lanka	4.1	Kyrgyz Republic	3.8	Mongolia	3.5	Samoa	14.5
Papua New Guinea	4.0	Tajikistan	3.8	Uzbekistan	4.1	Nepal	3.8	Nauru	3.5	Bangladesh	14.3
Tajikistan	4.0	Bhutan	3.7	Samoa	4.0	Sri Lanka	3.8	Palau	3.5	Uzbekistan	13.8
Timor-Leste	4.0	Maldives	3.7	Mongolia	3.8	Maldives	3.6	Timor-Leste	3.5	Tonga	13.7
Mongolia	3.8	Solomon Islands	3.7	Palau	3.7	Pakistan	3.6	Tonga	3.5	Tajikistan	13.5
Pakistan	3.8	Tonga	3.7	Tonga	3.6	Uzbekistan	3.6	Tuvalu	3.5	Pakistan	12.5
Solomon Islands	3.8	Uzbekistan	3.7	Tajikistan	3.5	Tajikistan	3.5	Vanuatu	3.5	Maldives	12.0
Vanuatu	3.8	Papua New Guinea	3.5	Pakistan	3.4	Palau	3.4	Armenia	3.0	Palau	11.8
Samoa	3.7	Bangladesh	3.3	Tuvalu	3.4	Nauru	3.2	Bangladesh	3.0	Solomon Islands	11.6
Afghanistan	3.5	FSM	3.3	Nauru	3.2	Timor-Leste	3.2	Cambodia	3.0	Timor-Leste	11.0
Maldives	3.5	Palau	3.3	Kiribati	3.1	Tuvalu	3.2	Kyrgyz Republic	3.0	Tuvalu	10.1
Palau	3.3	Timor-Leste	3.2	Timor-Leste	3.1	Papua New Guinea	3.1	Nepal	3.0	Vanuatu	10.0
Tonga	3.3	Vanuatu	3.2	Afghanistan	2.9	Solomon Islands	3.1	Pakistan	3.0	Papua New Guinea	9.7
Kiribati	3.2	Marshall Islands	3.0	Solomon Islands	2.9	Vanuatu	3.0	Samoa	3.0	Afghanistan	9.3
Tuvalu	2.8	Afghanistan	2.8	Papua New Guinea	2.8	Afghanistan	2.9	Uzbekistan	3.0	Nauru	9.3
Marshall Islands	2.7	Kiribati	2.8	Vanuatu	2.8	Kiribati	2.8	Viet Nam	3.0	Kiribati	8.9
FSM	2.5	Tuvalu	2.8	Marshall Islands	2.6	Marshall Islands	2.8	Maldives	2.5	FSM	8.4
Nauru	2.5	Nauru	2.3	FSM	2.6	FSM	2.8	Papua New Guinea	2.5	Marshall Islands	8.3

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

Notes:

1. The 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 economic management, structural policies, and policies for social inclusion and equity.

2. Countries are ranked in descending order by score. When scores are equal, countries are listed alphabetically.

Source: Asian Development Bank.