Report on the 2022 Country Performance Assessment Exercise

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I. INTRODUCTION

1. The Asian Development Bank (ADB) links the allocation of concessional assistance resources to country performance. 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 concessional assistance policy (CAP) for the Asian Development Fund (ADF) 13 period, 2021–2024, ADB gauges the performance of eligible borrowers with access to concessional resources by conducting biennial country performance assessments (CPAs) and uses the results to derive concessional resource allocations.1 This report provides information on the conduct and results of the 2022 assessment.

II. PERFORMANCE-BASED ALLOCATION SYSTEM

A. Country Performance Assessments

2. ADB conducts CPAs for all developing member countries (DMCs) with access to concessional resources. The CPA assesses a DMC’s policy and institutional framework for reducing poverty, promoting sustainable growth, and using concessional assistance effectively. The performance of each country 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 its concessional assistance project portfolio. As required by the CAP, ADB uses the International Development Association (IDA) country policy and institutional assessment questionnaire and guidelines.2 The method to calculate the composite country performance rating is in Appendix 1.

B. Resource Allocation

3. The allocation of ADF grants is based on the performance-based allocation (PBA) system.3 The PBA system strengthens the link between allocations, country needs, and country performance. 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. In addition to the CPA, the system considers country needs by including population and per capita gross national income. Other things being equal, the allocation shares increase as the population rises and decrease as per capita income increases.

4. The allocation of concessional ordinary capital resources lending (COL) under the ADF 13 is based on a combined PBA and a need-based adjustment approach (each accounting for 50% of the overall resource allocation under the ADF 13). The total COL allocation for an eligible country is the sum of the allocation from a PBA component and from a need-based component.

5. The allocation formulas are described in Appendix 2.

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C. Implementation Arrangements

6. The focal point for implementing the CAP is the Strategy, Policy, and Partnerships Department (SPD), which is outside the regional departments. This arrangement separates concessional resource allocation from concessional resource use.

7. Representatives of the regional departments are in the CPA Working Group, along with experts from the Economic Research and Regional Cooperation Department (ERCD); Office of Anticorruption and Integrity (OAI); Office of the General Counsel (OGC); Procurement, Portfolio, and Financial Management Department (PPFD); and Sustainable Development and Climate Change Department (SDCC).

8. A technical subgroup consisting of experts from ERCD, OAI, OGC, PPFD, and SDCC reviews the preliminary CPAs prepared by the country teams and recommends revisions for quality and consistency across countries. The CPA working group then reviews the revised assessments and recommends the country ratings to a CPA review panel.

9. The CPA review panel—chaired by the director general of SPD and comprising the heads of the regional departments, ERCD, OAI, OGC, PPFD, and SDCC—finalizes the ratings for ADB Management approval.

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

10. ADB continues to harmonize its concessional resource allocation and policies with those of other multilateral development banks (MDBs). Support for debt sustainability in group A countries accessing ADF grant country allocations, group A countries at low risk of debt distress, IDA gap countries, and group B countries accessing COL has been strengthened under the ADF 13 through alignment with IDA’s Sustainable Development Finance Policy.

11. Close collaboration with other MDBs is being maintained through annual joint technical workshops and/or meetings on PBA and debt issues. On 15 September 2021 and 1–2 June 2022, ADB participated in the 17th and 18th Multilateral Development Banks–Multilateral Financial Institutions Technical Meeting on PBA Systems. The meetings, held virtually, were hosted by the African Development Bank in 2021 and jointly by the World Bank and the Inter-American Development Bank in 2022. The meetings discussed issues and developments in PBA systems.

III. 2022 COUNTRY PERFORMANCE ASSESSMENT

12. The 2022 CPA exercise followed a rigorous and transparent process. Twenty-six concessional assistance countries were assessed:

(i) The 2022 CPA includes Fiji, which was reclassified from group C to group B effective 2022; Niue, which was classified as a group B country effective 2022; and the Cook Islands, which was reclassified from group C to group B effective 2023.

(ii) The 2022 CPA was not carried out for Afghanistan and Myanmar, for which ADB has put on hold all regular operations because of the political situation in both countries.

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4 IDA gap countries are not eligible for ADF grants. They are group A countries except SIDS that have had gross national income per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as a gap country by IDA. The operational cutoff is $1,255 (2021 prices). As of 21 March 2023, the IDA gap countries among ADB’s DMCs were Bhutan, Cambodia, the Lao People’s Democratic Republic, and Myanmar.

5 IDA. Sustainable Development Finance Policy.
13. The 2022 CPA ratings approved by ADB Management are in Appendixes 3 and 4. Appendix 3 shows the detailed ratings for the countries included in the 2022 CPA exercise. Appendix 4 shows the country rankings for each performance indicator cluster and the overall ranking.

14. In accordance with the CAP, this CPA report, including the 2022 CPA ratings, will be disclosed to the public. The CPA ratings are used as the basis for PBAs for the remaining years of the ADF 13 period (2023–2024) for ADF grants and COL, and for the classification of fragile and conflict-affected situation countries.
CALCULATION OF THE COMPOSITE COUNTRY PERFORMANCE RATING

A. Economic Management Rating
   Average of scores for:
   1. Monetary and exchange rate policies
   2. Fiscal policy
   3. Debt policy and management
   (Rating range: 1–6)

B. Structural Policies Rating
   Average of scores for:
   4. Trade
   5. Financial sector
   6. Business regulatory environment
   (Rating range: 1–6)

C. Policies for Social Inclusion and Equity Rating
   Average of scores for:
   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
   (Rating range: 1–6)

Policy and Institutional Rating
   Average of scores for A, B, and C
   (Rating range: 1–6)

Governance Rating
   Average of scores for:
   12. Property rights and rule-based governance
   13. Quality of budgetary and financial management
   14. Efficiency of revenue mobilization
   15. Quality of public administration
   16. Transparency, accountability, and corruption in the public sector
   (Rating range: 1–6)

Portfolio Performance Rating
   Based on the proportion of projects at risk in the project performance reporting system
   (Rating range: 1–6)

Composite Country Performance Rating
   \[ \text{Composite Country Performance Rating} = (\text{policy and institutional rating})^{0.7} \times (\text{governance rating})^{1.0} \times (\text{portfolio performance rating})^{0.3} \]
   (Rating range: 1–36)

ALLOCATION FORMULAS FOR CONCESSIONAL RESOURCES

1. Under the Asian Development Fund (ADF) 13 period, ADF grants and concessional ordinary capital resources lending (COL) are allocated separately to ensure the efficiency of the allocation frameworks.

2. The allocation of ADF grants is based on the performance-based allocation (PBA) formula, which is a weighted geometric function of the composite country performance rating (CCPR), per capita income, and population. The formula is calibrated to ensure that total allocations equal total available resources. For each country (i), the share of the allocated concessional resources (Si) is determined by the following formula (wherein PCI denotes per capita income and POP denotes population):

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

   The scaling factor, C, is a constant term, where

   \[ C = \frac{1}{\sum_i (CCPR_i^{2.00} \times PCI_i^{-0.25} \times POP_i^{0.60})} \]

3. The effect of squaring the CCPR on its component parts highlights the importance of the governance rating in the overall country allocation and is as follows:

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

4. Country allocations for ADF grants are the sum of PBAs, economic vulnerability premiums for small island developing states (SIDS), and the special allocation for Afghanistan.\(^1\) Each country's indicative assistance level is derived by applying its country allocation share to the overall available resource envelope.\(^2\)

5. The allocation of COL is based on a combined PBA and a need-based adjustment approach (each accounting for 50% of the overall resource allocation under the ADF 13). The total COL allocation for an eligible country is the sum of the allocation from the PBA-based component and from the need-based component. COL is allocated for the 4 years of the ADF 13 cycle with annual updates. For the need-based component, country allocation shares (CAS) for eligible countries for the next year are determined based on a 5-year horizon as an average of the actual commitments of the past 2 years and the rolling pipelines of lending products of the current and next 2 years, following the most recent work program and budget framework (WPBF).\(^3\)

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\(^1\) The economic vulnerability premium (EVP) is calibrated based on the economic vulnerability index (EVI) and complements the PBAs for eligible SIDS. The EVI was set up by the United Nations Committee for Development Policy and captures characteristics such as population size, remoteness, size of the economic base, and vulnerability to climate change. Based on their EVI scores, ADF-eligible SIDS are assigned premium amounts. ADF-eligible SIDS at high risk of debt distress are allocated the full amount of the EVP as grants, and ADF-eligible SIDS at moderate risk of debt distress are allocated half the amount of the EVP as grants, with the remaining amount is allocated as COL.

\(^2\) Net of the theme-based components.

\(^3\) The WPBF defines the parameters and main thrusts of ADB’s operations and provides the framework for preparing the budget for the upcoming year. ADB. 2022. *Work Program and Budget Framework, 2023–2025*. Manila.
\[ \text{CAS}_{2023} = \frac{\text{FP}_{2024} + \text{FP}_{2023} + \text{CY}_{2022} + \text{AC}_{2021} + \text{AC}_{2020}}{\text{FP}_{2024} + \text{FP}_{2023} + \text{CY}_{2022} + \text{AC}_{2021} + \text{AC}_{2020}} \]

where,

- \( \text{AC} \) = actual commitments
- \( \text{CY} \) = current year’s pipeline
- \( \text{FP} \) = forward-looking pipeline taken from current year’s WPBF

and

\[ \sum_{i=1}^{n} \text{CAS}_i = 100\% \]

The CAS is then applied to the overall available resource envelope for the year to determine the indicative country allocation.
The policy performance score is the unweighted average of the four performance indicator clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

Note: Twenty-six concessional assistance countries were assessed. The following considerations were made: (i) the 2022 CPA includes Fiji, which was reclassified as a group B country effective 2022; Niue, which was classified as a group B country effective 2022; and the Cook Islands, which was reclassified as a group B country effective 2023; and (ii) the 2022 CPA was not carried out for Afghanistan and Myanmar, for which ADB has put on hold regular operations because of the political situation in both countries.

a The policy performance score is the unweighted average of the four performance indicator clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

b The CCPR is computed as (policy and institutional rating)² x (government rating)¹ x (portfolio rating)³, where the policy and institutional rating is the unweighted average of the scores for clusters A, B, and C, which respectively covers economic management, structural policies, and policies for social inclusion and equity; and where the governance rating is the unweighted average of the scores for cluster D.

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*f* = fragile and conflict-affected situations, *σ* = small island developing states, CCPR = composite country performance rating, DMC = developing member country, FSM = Federated States of Micronesia, Lao PDR = Lao People’s Democratic Republic, PNG = Papua New Guinea.

Note: The countries are ranked in descending order by average score. When scores are equal, countries are listed alphabetically.

a The policy performance score is the unweighted average of the four performance indicator clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

b The CCPR is computed as (policy and institutional rating)⁰.⁷ * (governance rating)⁰.⁵ * (portfolio rating)⁰.³, where the policy and institutional rating is the unweighted average of the scores for clusters A (economic management), B (structural policies), and C (policies for social inclusion and equity); and where the governance rating is the unweighted average of the scores for cluster D (public sector management and institutions).