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## Technical Note on the Development Effectiveness Review Rating System

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Asian Development Bank

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CRF	–	Corporate Results Framework, 2019–2024
DEfR	–	Development Effectiveness Review
RFI	–	results framework indicator
RPI	–	regional progress indicator

## **NOTE**

1. In this report, "\$" refers to United States dollars.
2. The Asian Development Bank's Strategy, Policy and Partnerships Department is the source of all information in tables and figures in this document.

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## I. INTRODUCTION

1. In September 2019, the Asian Development Bank (ADB) adopted the new corporate results framework, 2019–2024 (CRF) that is aligned with ADB’s Strategy 2030.<sup>1</sup> The results framework consists of 60 results framework indicators (RFIs) that are complemented and reinforced by 158 tracking indicators. These indicators are arranged in four levels and divided into two sections. Section I consists of Level 1, which tracks development progress in Asia and the Pacific. Section II assesses ADB’s development effectiveness and is divided into three levels: results from ADB’s completed operations (Level 2), ADB’s operational management (Level 3), and ADB’s organizational effectiveness (Level 4).

2. The performance scorecard in the *Development Effectiveness Review* (DEfR) is designed to provide useful summary information to the Board, Management, and stakeholders. It uses color-coded signals to monitor progress and indicate performance relative to indicators and targets. These include arrows to show the direction of change. In the case of Level 1 regional progress indicators (RPIs),<sup>2</sup> the signals illustrate the direction of change; for RFIs at levels 2–4, they indicate the performance of ADB interventions. The CRF uses several scoring methods to determine these signals.

3. Section II of this technical note describes methods for tracking progress of Level 1 RPIs. Section III outlines methods used to assess performance for individual RFIs at levels 2–4. Section IV explains the composite indicators for levels 2–4 in the summary scorecard.<sup>3</sup>

## II. TRACKING DEVELOPMENT PROGRESS IN ASIA AND THE PACIFIC

4. Level 1 tracks development progress in Asia and the Pacific to monitor the continued long-term relevance of ADB’s strategy. It does not assess ADB’s performance, but instead reflects the region’s development progress resulting from collective development efforts. The Sustainable Development Goals are integrated into Level 1 and aggregated at the regional level. Official Sustainable Development Goal targets are also integrated into levels 2 and 3 where relevant.

5. The “progress” signaling method is applied to all Level 1 RPIs. Progress is assessed by comparing the most recent data with data from the previous year or period in which data are available. The CRF tracks regional development progress at Level 1 by measuring whether performance on each RPI has improved, stayed constant, or regressed. The following signals are used: green with arrow up—performance improved, gray with arrows sideways—performance stayed constant, and red with arrow down—performance deteriorated (Table 1).

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<sup>1</sup> ADB. 2019. *ADB Corporate Results Framework, 2019–2024*. Manila; and ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>2</sup> Level 1 indicators are renamed RPIs, and since ADB reviews regional development progress against baselines, they remain under the umbrella of RFIs.

<sup>3</sup> The guidance in this technical note is for internal use by ADB staff and will be updated as necessary to reflect good practices and lessons learned.

**Table 1: Signals for Level 1 Regional Progress Indicators**

Scoring Method	Signal <sup>a</sup>	Change
<b>Improved</b> —region’s performance improved from the baseline		Improved
<b>Unchanged</b> —region’s performance did not change significantly from the baseline		Stayed constant
<b>Regressed</b> —region’s performance deteriorated below the baseline		Deteriorated

<sup>a</sup> A change of more than 2.5% constitutes an improvement or a deterioration.

<sup>b</sup> The baseline for regional progress indicators is the latest year for which data are available.

6. The DEfR summary scorecard shows the number of RPIs that improved, remained constant, or deteriorated.

### III. MEASURING ADB’S PERFORMANCE

#### A. Targets

7. The CRF has four target types: (i) 2024 targets to be achieved by the end of the CRF period, (ii) periodic performance targets to be achieved each time the RFI is measured, (iii) an achievement rate target for the seven operational priorities of Strategy 2030, and (iv) the “monitor” target for RFIs that are important but for which it is not appropriate or yet possible because of lack of performance data to set corporate targets.

8. For RFIs with 2024 targets, two separate scoring methods are applied: (i) in the initial and interim years of the CRF (2019–2023), a green signal with a check mark indicates that progress is *at or above target*, green with no check mark indicates performance is *on track* to meet the target, amber signifies progress is *on track but watch*, and red warns that performance is *off track* to meet the target (APPENDIX 1); (ii) in 2024, the final year of the CRF, the scoring will use a 3-level system of colors, where green indicates *at or above target—target met*, dark amber indicates *close to target with a margin of 1%*, and red signifies *below target—target not met* (APPENDIX 2).

9. For RFIs at levels 2–4 that have periodic performance targets, the DEfR assesses each year or other measurement period (e.g., every 2 years for indicators measured using survey data) whether performance met the target. A simple binary system of colors represents performance: a green signal signifies *at or above target—target met*; a red signal indicates *below target—target not met*.

10. The CRF uses six scoring methods to determine color assignment and monitors RFIs that are not scored (Table 2).

**Table 2: Scoring Methods**

Category	Scoring method	Note
Strategy 2030 operational priority results	1. Achievement rate	The ratio of achieved and planned outputs and outcomes for Strategy 2030 operational priority results (Level 2A) is compared to a satisfactory achievement rate of at least 80%.

Category	Scoring method	Note
2024 target	2. Point target 3. Range	Most RFIs are assigned 2024 targets. Such indicators are expected to make gradual progress from the baseline value. Because it may be unrealistic to meet a challenging 2024 target in the earlier years of the results framework, performance is assessed against implicit interim targets that are derived from the baseline and the 2024 target.
Periodic performance target	4. Performance standard 5. Maintain	RFIs with periodic performance targets have minimum and/or maximum threshold values that need to be satisfied every measurement period up to 2024. Failure to meet a periodic target is cause for immediate concern and is flagged in the corporate scorecard as <i>off track</i> . Periodic performance targets may be based on baseline values if performance is already close to satisfactory levels.
Accumulation	6. Cumulative	This scoring method measures cumulative performance over the results framework period.
No scoring	7. Monitor	No colors are assigned to RFIs that are monitored. A downward or upward arrow is shown if there is a change from the previous value.

RFI = results framework indicator.

## B. Volatility

11. ADB uses a linear approach to assess progress toward the 2024 targets. This involves drawing a straight line from the baseline value to the target value, representing the most straightforward path from the baseline for improvement in ADB performance to achieve the 2024 target. To account for possible volatility in the RFIs, ADB applies a volatility band, which is shown as an amber band in Figure 1 and corresponds to a signal of *on track but watch*.<sup>4</sup>

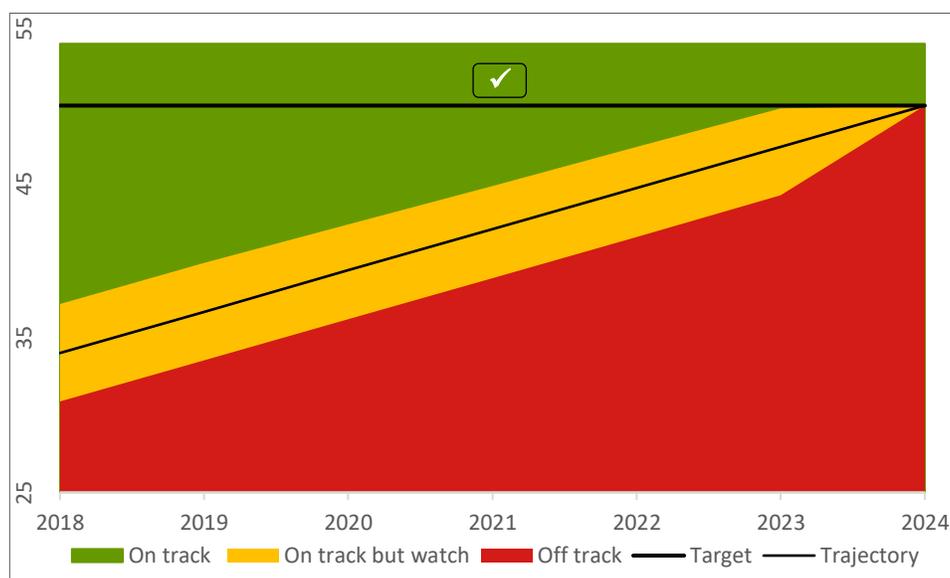
12. The need for prudence and meaningful signals is an important consideration that requires careful balancing when determining bandwidths. RFIs differ significantly in their volatility, so assigning the same fixed bandwidth for each one would be inappropriate and could result in bandwidths that are too narrow or too wide to give meaningful signals to management. To address this, ADB developed a nonparametric approach that classifies RFIs into three bandwidth groups based on a parametric analysis of volatility, as follows:

- (i) Low volatility (within a plus/minus 2.5% range of the average of the baseline and target)

<sup>4</sup> See Appendix 3 for more details on determining bandwidths.

- (ii) Medium volatility (within a plus/minus 5.0% range of the average of the baseline and target)<sup>5</sup>
- (iii) High volatility (within a plus/minus 7.5% range of the average of the baseline and target)

**Figure 1: Example of Three Signal Colors and Volatility Band**



## C. Scoring Methods

13. The scoring methods for Level 2–4 RFIs are described in more detail in paras. 14–24.

### 1. Achievement Rate

14. The “achievement rate” scoring method is used for RFIs measuring progress in the Strategy 2030 operational priority areas, as reported in Level 2A. It assesses the ratio of the aggregate amount of results reported in project completion reports or extended annual review reports as having been achieved by ADB-supported operations to the planned results as reported in reports and recommendations of the President for the same operations. Scoring is as follows:

<i>At or above target</i>	Achievement rate (rounded) is equal to or higher than the satisfactory achievement rate of 80%
<i>Below target</i>	Achievement rate (rounded) is lower than the satisfactory achievement rate of 80%

### 2. Point Target

15. The “point target” scoring method is used to assess attainment of long-term targets. Setting a baseline and 2024 target for RFIs allows for determining implicit intermediate targets that need to be achieved to make attaining the long-term target more likely.<sup>6</sup> Comparing results with these implicit intermediate targets enables ADB to determine progress toward the 2024 target

<sup>5</sup> This category also includes indicators for which the volatility-based bandwidth cannot be determined.

<sup>6</sup> For simplicity, a constant slope is assumed.

and assign a corresponding color.

16. The color assigned using the point target scoring method depends on the year and the value. During the interim years (2019–2023), amber is assigned as long as the RFI progresses toward the target within a predetermined band of 2.5%, 5.0%, or 7.5% of the average baseline. This band allows for sufficient granularity and avoids frequent and unclear signal changes for RFIs that are progressing toward the target with some minor fluctuations. Within the amber band, an RFI is deemed to be *on track* to attain the 2024 target but requires close monitoring as it could easily move *off track* by merely remaining constant. If the RFI performs worse than the lower border of the band, it is considered *off track* and a red signal is assigned. If it performs better than the upper border of the band, the RFI is considered *on track* and a green signal is assigned. A green signal with a checkmark indicates that the rounded RFI is *at or above target*. Note that colors are only used to assess progress toward the target year.

17. In 2024, performance will be *at or above target* (green check), *close to target* (amber) if it falls into the 1% buffer zone, or *below target* (red). The rules are visually summarized in Figure 2. The point target method includes the possibility of a Management adjustment to the volatility band.

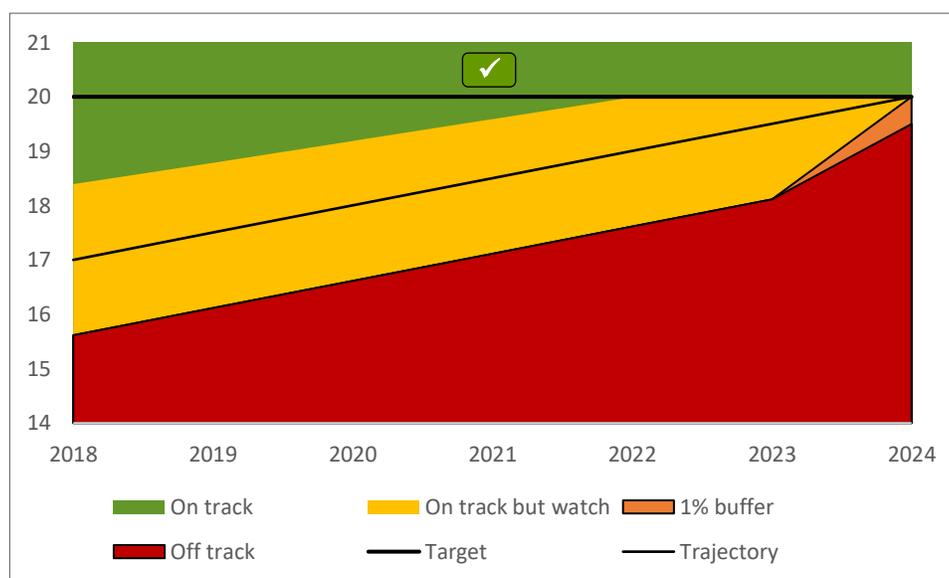
From 2019 to 2023:

<i>At target</i>	Performance is at or above the target
<i>On track</i>	Progress is above the volatility band
<i>On track but watch</i>	Progress is toward the target within a volatility band
<i>Off track</i>	Progress is below the volatility band

In 2024:

<i>At or above target</i>	Performance is at or above target
<i>Close to target</i>	Performance is below target, missing it by 1% or less
<i>Below target</i>	Performance is below target

**Figure 2: Example of Point Target**



### 3. Range

18. The “range” scoring method is a variant of the point target scoring method and is used for Asian Development Bank

RFIs measuring financing for education and health, which are assigned a target range rather than a point target for 2024.

19. The scoring method is similar to that for point targets, but if performance over- or undershoots the specified range, a signal of *outside the range* will be given. An *on track but watch* band of 2.5%, 5.0%, or 7.5% of the average baseline and target is added to the outer range to allow for minor over- or undershooting in intermediate years. As in the point target method, colors are only used to assess progress toward the target year (Figure 3). In 2024, the target range will either have been achieved or not.

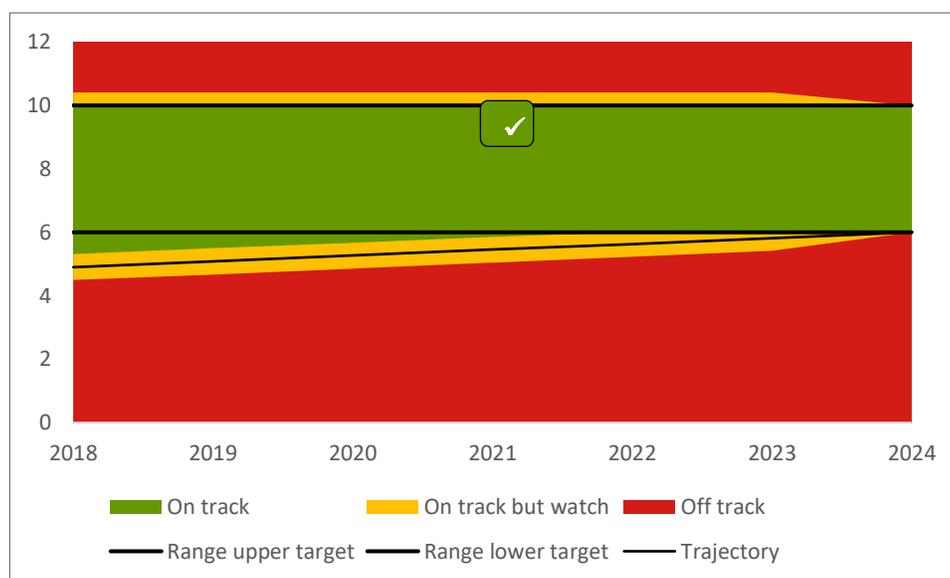
From 2019 to 2023:

<i>On track</i>	Progresses inside the target range
<i>On track but watch</i>	Progresses toward the target range within upper or lower volatility band
<i>Off track</i>	Progresses outside the upper or lower volatility band

In 2024:

<i>Within the range</i>	Performance is within the target range
<i>Outside the range</i>	Performance is outside the target range

**Figure 3: Example of Range**

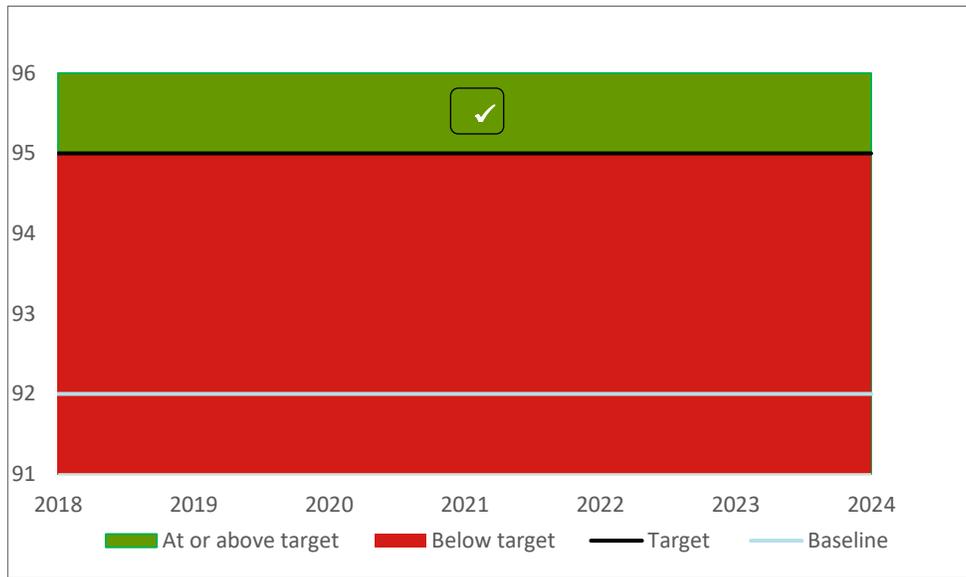


#### 4. Performance Standard

20. The “performance standard” scoring method is used for RFIs with minimum and/or maximum threshold values that need to be satisfied throughout the results framework period. Failure to meet the periodic performance target is cause for immediate concern and flagged as *below target* (Figure 4).

<i>At or above target</i>	Performance (rounded) is better than or equal to the performance standard
<i>Below target</i>	Performance (rounded) is worse than the performance standard.

**Figure 4: Example of Performance Standard**

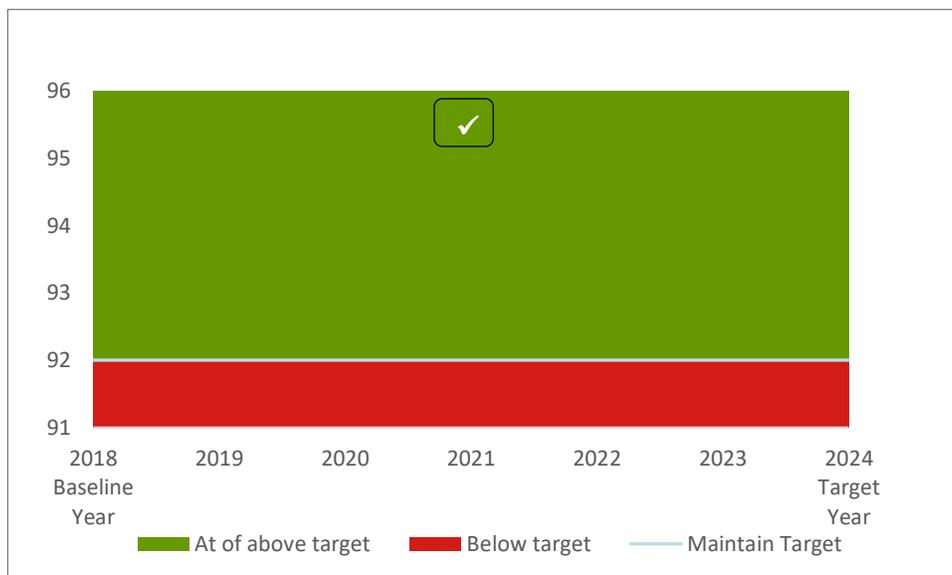


**5. Maintain**

21. The “maintain” scoring method is a variant of the performance standard method. It sets the threshold value at the baseline level (Figure 5). The value needs to be met in each year.

*At or above target* Performance (rounded) is better than or equal to the baseline  
*Below target* Performance (rounded) is worse than the baseline

**Figure 5: Example of Maintain**



## 6. Cumulative

22. The “cumulative” scoring method assumes that performance increases in equal increments each year and accumulates to reach the cumulative target. Some deviation from this trajectory is allowed in which the RFI is considered *on track but watch*. The bandwidth is 12% in 2018 and decreases annually by 2 percentage points to 0% in 2024. This method is used for the indicators financing for climate change mitigation and adaptation (\$ million) (Figure 6) and number of projects or transactions with sovereign-nonsovereign collaboration (number).

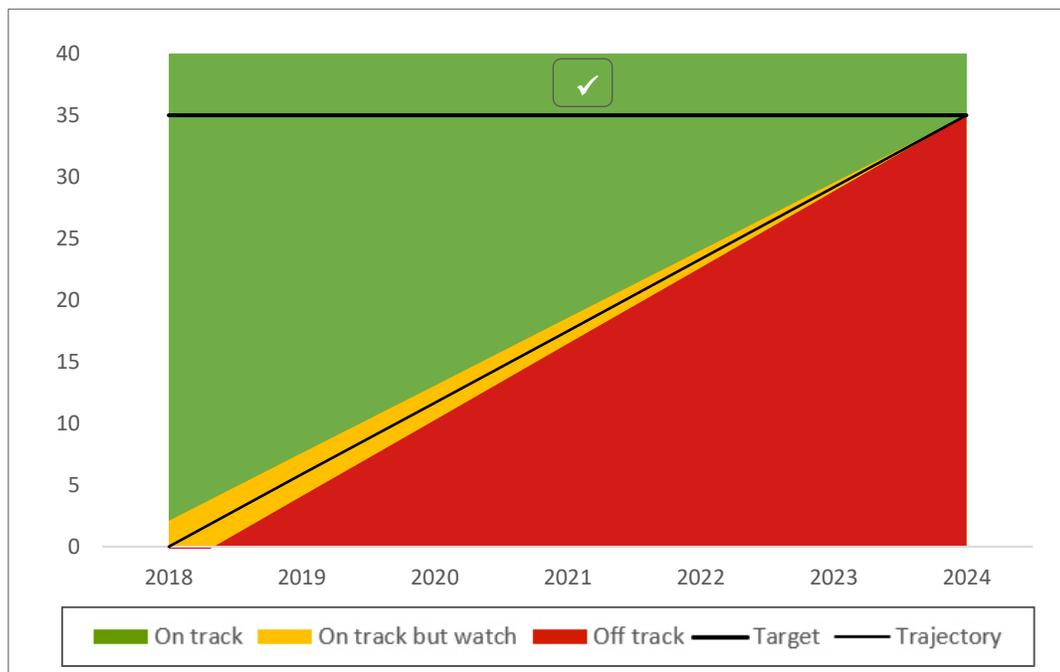
From 2019 to 2023:

<i>Target met</i>	At or above cumulative total
<i>On track</i>	Progress is above the volatility band
<i>On track but watch</i>	Progress is toward the target within the volatility band
<i>Off track</i>	Progress is below the volatility band

In 2024:

<i>Target met</i>	At or above the cumulative total
<i>Target not met</i>	Below the cumulative total

**Figure 6: Example of Cumulative**



23. Similar to the point target and range methods, the cumulative method includes the possibility of a Management adjustment to the standard initial bandwidth for an RFI where a gradual performance ramp-up is foreseen. In such cases, performance that deviates considerably from the baseline to the target line would still be considered *on track but watch* in earlier years.

## 7. Monitor

24. The "monitor" target type is used when a performance area is important enough to be

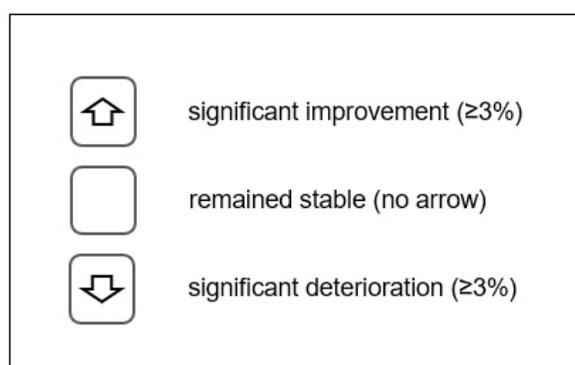
included as an RFI, but setting a target is not appropriate or possible because of a lack of performance data. RFIs using this target type include (i) Performance of operations at implementation rated *satisfactory* (%) (sovereign), (ii) Operations at risk of not achieving development results (%) (nonsovereign), and (iii) Operations supporting poverty reduction and inclusiveness (%) (sovereign and nonsovereign).

25. No color is assigned to RFIs that are monitored because they are not assessed against targets and have no impact on the composite signals. Change from the previous value is shown with a downward or upward arrow and will be considered for actions and lessons learned.

#### D. Arrows to Report Annual Change

26. Arrows represent annual deteriorations or improvements. If the change is large enough to justify a signal, a downward or upward arrow is shown (Figure 7). No arrow is shown if the annual change is less than 3% of the most recent previous value. For RFIs that are monitored, arrows are used to show the direction of movement. No arrows are shown for operational priority results at Level 2A because performance is assessed against an annual target rather than past or baseline performance.

**Figure 7: Annual Change of Scored Indicators**



#### E. Integrating Progress and Annual Change

27. Single integrated symbols indicate both target attainability and periodic change. This provides more information at a glance. For instance, a green signal with a downward arrow means that performance is *on track* but has deteriorated from the previous year. This might prompt Management to analyze the RFI in more detail. A red signal with an upward arrow may show that measures are already paying off, although progress is still unsatisfactory. Table 3 shows the signals used in levels 2–4.

**Table 3: Signals for Levels 2–4 Results Framework Indicators**

Scoring Method	Signal	Annual Change <sup>a</sup>
<b>At or above target</b> —performance at or above target		
<b>On track</b> —performance exceeded desired progress to attain 2024 target		Improved
		Remained constant
		Deteriorated
<b>On track but watch</b> —performance met desired progress to attain 2024 target but requires close monitoring		Improved
		Remained constant
		Deteriorated
<b>Off track</b> —performance fell short of desired progress to attain target		Improved
		Remained constant
		Deteriorated
<b>Monitor</b> —no performance assessment		Increased
		Remained constant
		Decreased

<sup>a</sup> An arrow indicates a significant (≥3%) change from previous performance.

**IV. COMPOSITE INDICATORS**

28. The composite indicators provide an overview of the performance for a group of indicators. Table 4 summarizes how these indicators are derived. In a given year, a composite signal is only assigned to groups of indicators in which data for at least 3 indicators with specific targets (i.e. not a “monitor” type target) are reported.

**Table 4: Composite Signals for Levels 2–4**

Signal	Explanation
<b>good</b>	Two-thirds or more of RFIs in the group achieved a green or amber signal and half or more achieved green signal.
<b>mixed</b>	More than half but less than two-thirds of RFIs in the group achieved a green or amber signal or two-thirds or more of RFIs in the group achieved a green or amber signal but less than half achieved green signal.
<b>poor</b>	Half or less of RFIs in the group achieved a green or amber signal.

RFI = results framework indicator.

### APPENDIX 1: LEVELS 2–4 SCORING METHODS FOR 2019–2023

Scoring Method	Target	Note	Applied To <sup>a</sup>
Achievement rate	Annual	<ul style="list-style-type: none"> <li>At or above target</li> <li>Below target</li> </ul>	Level 2A: RFIs 1–22
Point target	2024	<ul style="list-style-type: none"> <li>At or above target</li> <li>Above band from baseline to target</li> <li>Within band from baseline to target</li> <li>Below band from baseline to target</li> </ul>	Level 2B: RFIs 1–4 Level 3: RFIs 2, 6, 9–11, 13–14 Level 4: RFIs 2–3, 5–6, and 8
Range	2024	<ul style="list-style-type: none"> <li>Within the target range</li> <li>Above band from baseline to target</li> <li>Within band from baseline to target</li> <li>Below band from baseline to target</li> </ul>	Level 3: RFIs 7–8
Performance standard	Annual	<ul style="list-style-type: none"> <li>Performance standard or better</li> <li>Worse than the performance standard</li> </ul>	Level 2B: RFI 5 Level 3: RFI 5 Level 4: RFI 1
Maintain	Annual	<ul style="list-style-type: none"> <li>Baseline or better</li> <li>Worse than the baseline</li> </ul>	Level 3: RFI 1
Cumulative	2024	<ul style="list-style-type: none"> <li>At or above cumulative target</li> <li>Above band from baseline to target</li> <li>Within band from baseline to target</li> <li>Below band from baseline to target</li> </ul>	Level 3: RFI 12 Level 4: RFI 4
Monitor <sup>b</sup>	2024	<ul style="list-style-type: none"> <li>Increased</li> <li>Remained stable</li> <li>Decreased</li> </ul>	Level 3: RFIs 1–4, 9–11, and 15 Level 4: RFI 7

Band = volatility band, RFI = results framework indicator.

<sup>a</sup> Refers to the RFI numbers used in the ADB Corporate Results Framework, 2019–2024.

<sup>b</sup> Indicators with the scoring method “monitor” have no impact on the summary scorecard. Only arrows are shown.

## APPENDIX 2: LEVELS 2–4 SCORING METHODS FOR 2024

Type	Target	Notes		Applied to <sup>a</sup>
Achievement rate	Annual	<ul style="list-style-type: none"> <li>Better than target</li> <li>Worse than target</li> </ul>	 	Level 2A: Strategy 2030 Operational Priority Results
Point target	2024	<ul style="list-style-type: none"> <li>At or above target</li> <li>Below target, but within 1% buffer zone</li> <li>Below target</li> </ul>	  	Level 2B: RFIs 1–4 Level 3: RFIs 2, 6, 9–11, 13–14 <sup>b</sup> Level 4: RFIs 2–3, 5–6, and 8
Range	2024	<ul style="list-style-type: none"> <li>Within the target range</li> <li>Outside the target range</li> </ul>	 	Level 3: RFIs 7–8
Performance standard	Annual	<ul style="list-style-type: none"> <li>Performance standard or better</li> <li>Worse than the performance standard</li> </ul>	 	Level 2B: RFI 5 Level 3: RFI 5 Level 4: RFI 1
Maintain	Annual	<ul style="list-style-type: none"> <li>Baseline or better</li> <li>Worse than the baseline</li> </ul>	 	Level 3: RFI 1
Cumulative indicator	2024	<ul style="list-style-type: none"> <li>At or above cumulative target</li> <li>Below cumulative target</li> </ul>	 	Level 3: RFI 12 Level 4: RFI 4
Monitor <sup>b</sup>	2024	<ul style="list-style-type: none"> <li>Increased</li> <li>Remained stable</li> <li>Decreased</li> </ul>	  	Level 3: RFIs 1–4, 9–11, and 15 Level 4: RFI 7

RFI = results framework indicator.

<sup>a</sup> Refers to the RFI numbers used in the ADB Corporate Results Framework, 2019–2024 and development effectiveness review.

<sup>b</sup> The 1% buffer zone will not apply to RFI Level 3, no. 13 “Nonsovereign operations as a share of total ADB operations (% , number) because Strategy 2030 sets a target date of 2024 for this indicator. This indicator will be scored either green or red in 2024.

<sup>c</sup> Indicators with the scoring method “monitoring” have no impact on the summary scorecard. Only arrows are shown.

### APPENDIX 3: DETERMINING BANDWIDTHS

1. The following three-step approach to determine bandwidths has been in place since 2011. The bandwidth calculation described in this appendix is used for the point target, range, and cumulative scoring methods.

#### A. Step 1: Volatility-Based Bandwidth

2. Volatility-based bandwidths are calculated as a first crude input for deriving the bandwidth classification of indicators. The volatility-based bandwidth around the target line  $Y^T$ , is determined by assuming that the observed indicator,  $Y_i$  for year  $i$  can be expressed by the baseline value,  $Y_0$ , the average change needed to reach the target,  $d^T = \frac{(\text{Target} - Y_0)}{\text{\# years to Target}}$  and a random error,  $\epsilon_i$ , such that

$$Y_i = Y_0 + d^T \times i + \epsilon_i = Y_i^T + \epsilon_i,$$

$$\text{and } \epsilon_i \sim N(0, \sigma_\epsilon^2).$$

$\epsilon_i$  is a random variable with zero mean. Volatility of  $\epsilon_i$  will determine the volatility-based bandwidth, with a highly volatile error term leading to a broader bandwidth and vice versa. Estimating the parameters of  $\epsilon_i$  is a challenge due to the lack of sufficient data for many indicators. Where data are available, the standard deviation of  $\epsilon_i$  can be estimated using the linear regression model. With the estimated variance, the confidence intervals (or bandwidth) around the observed value can be estimated using t-statistic. The volatility-based bandwidth will be  $\pm t_{(\alpha/2, n-2)} \times \hat{\sigma}_\epsilon$ , where  $\hat{\sigma}_\epsilon$  is the estimated standard deviation of  $\epsilon_i$ . The confidence level is set at 95%.

3. Since there are indicators for which the targets are lower values than the baseline (e.g., average sovereign operations processing time), a different set of criteria must be applied depending on the type of indicator.

For indicators where higher values are targeted:

Criteria	Color
$Y_i > Y_i^T + \text{margin of error}$ and $Y_i < \text{Target}$	Green
$Y_i^T - \text{margin of error} \leq Y_i \leq Y_i^T + \text{margin of error}$ and $Y_i < \text{Target}$	Yellow
$Y_i < Y_i^T - \text{margin of error}$ and $Y_i < \text{Target}$	Red

For indicators where lower values are targeted:

Criteria	Color
$Y_i < Y_i^T + \text{margin of error}$ and $Y_i > \text{Target}$	Green
$Y_i^T - \text{margin of error} \leq Y_i \leq Y_i^T + \text{margin of error}$ and $Y_i > \text{Target}$	Yellow
$Y_i > Y_i^T - \text{margin of error}$ and $Y_i > \text{Target}$	Red

**B. Step 2: Initial Bandwidth Classifications**

4. Based on these volatility-based bandwidths, indicators are classified in three broad categories and assigned a corresponding bandwidth (Table A3).

**Table A3: Classification of Bandwidths**

<b>Category</b>	<b>Volatility-Based Bandwidth</b>	<b>Assigned Prudent Bandwidth</b>
Low volatility	0.0%–5.0%	2.5%
Medium volatility	5.0%–15.0%	5.0%
High volatility	>15.0%	7.5%

Bandwidths are one-sided and a percentage of the average baseline and target.

5. This second step makes the approach more prudent from a Management perspective. As most bandwidths are narrowed in the process, red signals will be given sooner if the indicator starts to deteriorate. Note that a classification into narrower bandwidths is also likely to provide fewer “*watch*” signals for indicators that are considered *on track*.

**C. Step 3: Reclassification Based on Management Judgment**

6. As limited availability of data affects the reliability of volatility calculations, it needs to be supplemented by Management judgment to derive more prudent results. Such a reclassification may be particularly relevant in situations where (i) the bandwidth cannot be determined, (ii) data availability is limited, (iii) the target year is close, or (iv) there are already predetermined institutional bandwidths.<sup>1</sup>

<sup>1</sup> Indicators for which no volatility-based bandwidth could be calculated because of limited data are usually considered to be of medium volatility.