ADB

March 2018

Technical Note on the Development Effectiveness Review Rating System

Asian Development Bank

ABBREVIATIONS

ADB   –   Asian Development Bank
DEfR   –   Development Effectiveness Review

NOTE

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

CONTENTS

I. INTRODUCTION

1.   In December 2017, ADB adopted the Transitional Results Framework, 2017–2020.[1] The transitional framework's 85 indicators are arranged in four levels and divided into two sections. Section 1 of the framework comprises Level 1, which tracks development progress in Asia and the Pacific to monitor the continued relevance of ADB's strategy. Section 2 includes Levels 2–4, which together measure ADB's performance in executing Strategy 2020 and its midterm review.[2] Level 2 focuses on ADB's contributions to development results through the successful delivery of the results of operations completed in the last 3 years (2015–2017). Level 3 tracks ADB's operational management of its new and ongoing operations. Level 4 examines ADB's performance in managing its internal resources and processes to support its operations effectively.

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 targets. These include arrows to show the direction of change. In the case of Level 1 indicators, the signals illustrate the direction of change; for indicators at Level 2–4, they indicate performance against targets. The transitional results framework uses several scoring methods to determine these signals.

3.   Section II of this technical note describes methods for tracking progress on Level 1 indicators. Section III outlines methods used to assess performance for individual indicators at Levels 2–4. Section IV explains the composite indicators for Levels 2–4 in the summary scorecard.[3] ADB has automated the scoring process based on predetermined and transparent rules to enhance efficiency, speed, and reliability.

II. TRACKING DEVELOPMENT PROGRESS IN ASIA AND THE PACIFIC

4.   Level 1 tracks development progress in Asia and the Pacific to monitor the continued relevance of ADB's strategy. It does not assess ADB's performance, but instead reflects the collective development results in the region.

5.   The "progress" signaling method is applied to all Level 1 indicators. Progress against the baseline is assessed for the latest available period. The corporate results framework tracks development progress at Level 1 by measuring whether performance on each indicator has improved, remained unchanged, or regressed. The following signals are used (Table 1): green with arrow up (*performance improved*), gray with arrows sideways (*performance stayed constant*), and red with arrow down (*performance deteriorated*).

---

[1]   ADB. 2017. *The Asian Development Bank's Transitional Results Framework, 2017–2020.* Manila.
[2]   ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank.* Manila; and ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific.* Manila.
[3]   This guidance 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 Indicators

Scoring Method	Signal[a]	Change
Improved—region's performance progressed above the baseline[b]	⬆	Improved
Unchanged—region's performance did not progress significantly against the baseline	⬌	Stayed constant
Regressed—region's performance declined from the baseline	⬇	Deteriorated

[a]   A change of more than 2.5% constitutes an improvement or deterioration.
[b]   If an indicator has been essentially achieved, then the green arrow up signal is used.
Source: Asian Development Bank (Strategy, Policy and Review Department).

6.   There are no composite scores for Level 1. Instead, the DEfR summary scorecard shows the percentage of (i) Poverty (income and non-income), and (ii) Other development outcomes indicators that improved, remained unchanged, or regressed.

III.   MEASURING ADB'S PERFORMANCE

A.   Targets

7.   The transitional results framework contains two types of targets for indicators at Levels 2–4: annual and 2020. For indicators with annual targets, the DEfR assesses each year whether performance met the target. A simple binary system of colors represents performance: a green scorecard signal signifies *at or above target—target met*; a red signal indicates *below target—target not met*.

8.   For indicators with 2020 targets, two separate scoring methods are applied: (i) in the initial and interim years of the transitional results framework (2017–2019), a green check indicates that progress is *at or above target,* green 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 the final year of the 2017–2020 framework, the scoring will use the same binary system of colors as for annual targets, where green indicates *at or above target—target met* and red signifies *below target—target not met* (Appendix 2).

9.   The transitional results framework uses eight scoring methods to determine these colors and one monitoring method for indicators that are not scored (Table 2).

Table 2: Scoring Methods

Category	Scoring method	Notes
Core operational results	1. Achievement rate	The ratio of achieved and planned outputs and outcomes for core operational results (Level 2) is compared to a satisfactory achievement rate of at least 85%.
2020 target	2. Point target 3. Range	Most indicators are assigned 2020 targets. For such indicators, gradual progress from the baseline value is foreseen. As it may be unrealistic to meet a challenging 2020 target

Category	Scoring method	Notes
		in the earlier years of the results framework, performance is assessed against implicit interim targets that are derived from the baseline and the 2020 target.
Annual target	4. Performance standard 5. Maintain 6. Above baseline	Indicators with annual targets have minimum and/or maximum threshold values that need to be satisfied every year up to 2020. Failure to meet an annual target is cause for immediate concern and is flagged in the corporate scorecard as *off track*. Annual targets may be based on baseline values if performance is already close to satisfactory levels.
Accumulation	7. Cumulative indicator	This scoring method measures cumulative performance over the results framework period.
Increase	8. Increase	The signal for this scoring method is based on improvements relative to the baseline and annual change
No scoring	9. Monitor	No colors are assigned to indicators that are monitored.

Source: Asian Development Bank (Strategy, Policy and Review Department).
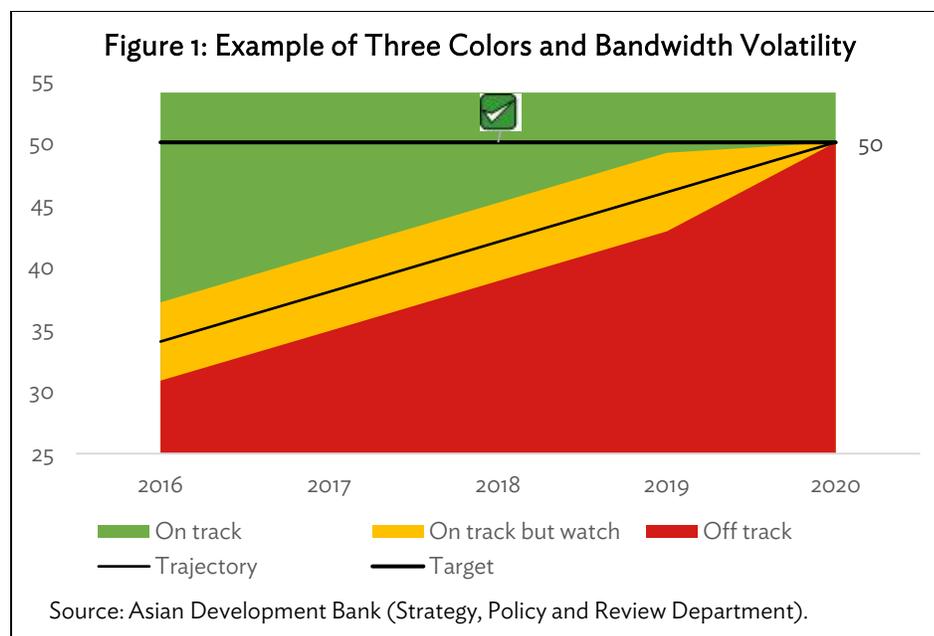
B. Volatility

10.   ADB uses a linear approach to assess advancement toward the 2020 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 2020 target. To account for possible volatility in the indicators, ADB applies a volatility bandwidth, which is shown as an amber band in Figure 1 and corresponds to a signal of *on track but watch*.[4]

11.   The need for prudence and meaningful signals are important considerations that require careful balancing when determining bandwidths. Indicators 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 indicators into three bandwidth groups based on a parametric analysis of indicator volatility:

> (i)   low volatility (2.5% of the average of the baseline and target),
> (ii) medium volatility   (5.0% of the average of the baseline and target),[5] and
> (iii) high volatility (7.5% of the average of the baseline and target).

---

[4] See Appendix 3 for more details on determining bandwidths.
[5]   This category also includes results indicators for which the volatility-based bandwidth cannot be determined.

Figure 1: Example of Three Colors and Bandwidth Volatility

Source: Asian Development Bank (Strategy, Policy and Review Department).

C.   Scoring Methods

12.   The scoring methods for Level 2–4 indicators are described in more detail in paras. 13–25.

1.   Achievement Rate

13.   The "achievement rate" scoring method is used to assess the ratio of achieved versus planned outputs and outcomes for core operational results in Level 2:

At or above target	Achievement rate (rounded) equals or is better than the satisfactory achievement rate of 85%
Below target	Achievement rate (rounded) is below the satisfactory achievement rate of 85%

2.   Point Target

14.   The "point target" scoring method is used to assess attainment of long-term targets.[6] The setting of a baseline and 2020 target for results indicators allows for determining implicit intermediate targets that need to be achieved to make attaining the long-term target more likely.[7] Comparing results with these implicit intermediate targets enables ADB to determine progress toward the 2020 target and assign a corresponding color. The progress color depends on the year and the results indicator value.

During interim years, amber is assigned as long as the results indicator 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 results indicators that are progressing toward the target with some minor fluctuations. Within the amber band, a results indicator is deemed to be *on track* to attain the 2020 target but requires close

---

[6] ADB. 2011. *Development Effectiveness Review 2010 Report*. Manila (Supplementary Appendix A).

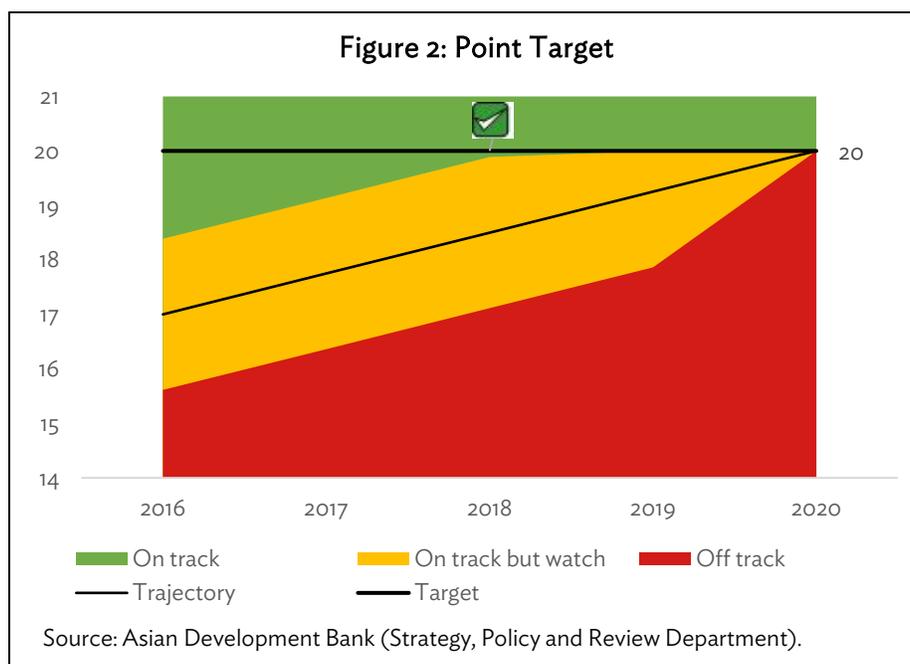[7] For simplicity, a constant slope is assumed.

monitoring as it could easily move *off track* by merely remaining stable. If the results indicator performs worse than the lower border of the band, it is considered *off track* and red is assigned. If it performs better than the upper border of the band, the results indicator is *on track* and green is assigned. Finally, green with a checkmark indicates that the rounded results indicator is *at or above target*. Note that colors are only used to assess progress toward the target year. In 2020, the target has been either achieved or not. The rules are visually summarized in Figure 2. The point target method includes the possibility of a management adjustment to volatility band.

During 2017–2019:
At target	Performance is at or above the target
On track	Progress is above the predetermined band
On track but watch	Progress is toward the target within a predetermined band
Off track	Progress is below the predetermined band

During 2020:
At or above target	Performance is at or above target
Below target	Performance is below target

Figure 2: Point Target

Source: Asian Development Bank (Strategy, Policy and Review Department).

3. Range

15. The "range" scoring method is a variation of the point target scoring method and is used for indicators that are assigned a target range rather than a specific target for 2020, including (i) financing for education, (ii) financing for health, (iii) internal administrative expenses per $1 million disbursement, and (iv) share of operational expenses for portfolio management.

16. Scoring is similar to point targets, but if performance overshoots 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 overshooting in intermediate years. Like the point target method, colors are only used to assess progress toward the target year (Figure 3). In 2020, the target range will either have been achieved or not.

During 2017–2019:

| *On track* | Progresses inside the predetermined target range |
| *On track but watch* | Progresses toward the target range within upper or lower band |
| *Off track* | Progresses outside the predetermined upper and lower band |

During 2020:

| *Within the range* | Performance is within the range |
| *Outside the range* | Performance is outside the range |

Figure 3: Range

Source: Asian Development Bank (Strategy, Policy and Review Department).
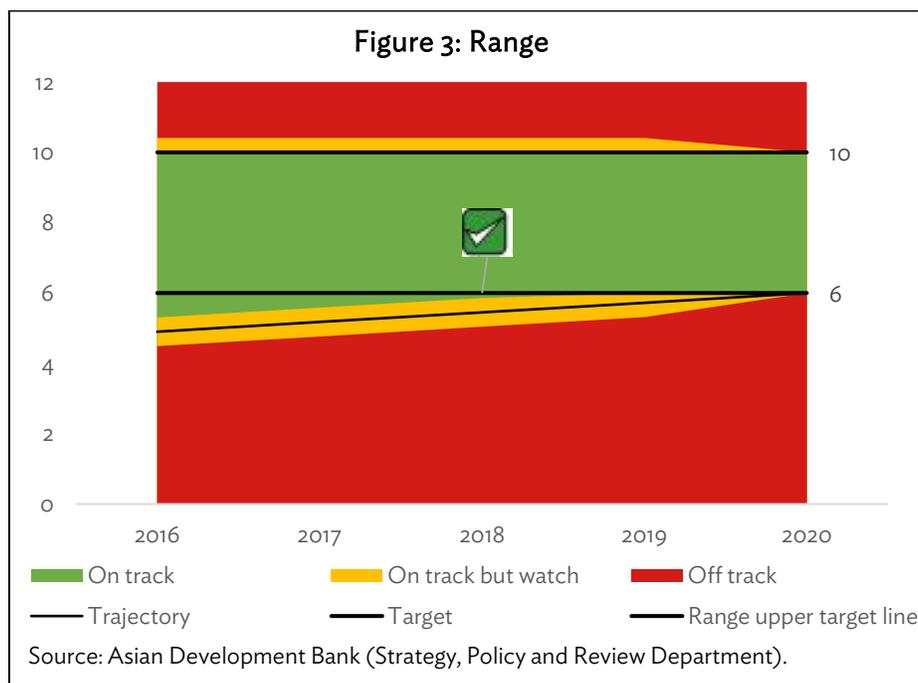
4.   Performance Standard

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

| *At or above target* | Performance (rounded) is better than or equal to the performance standard |
| *Below target* | Performance (rounded) is worse than the performance standard. |

Figure 4: Performance Standard

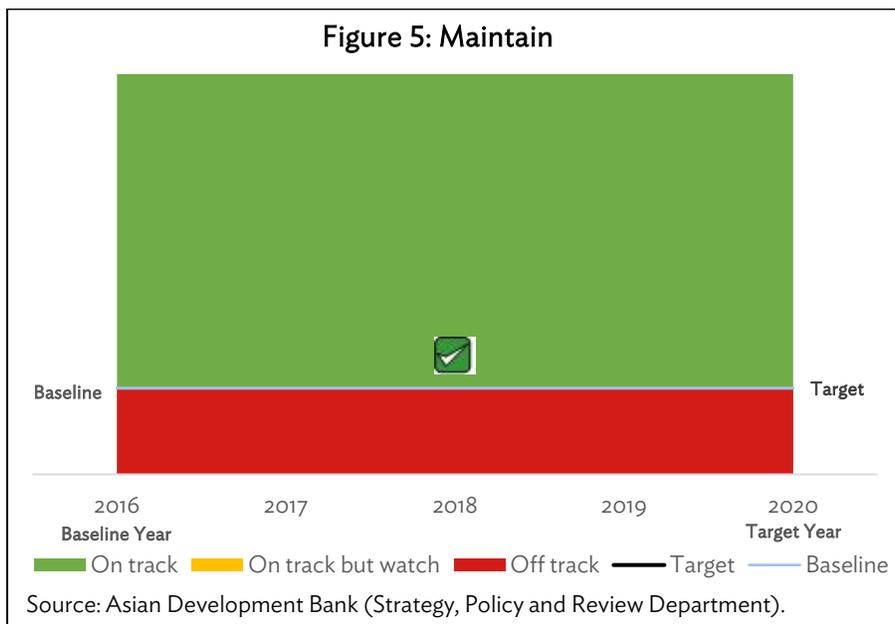Source: Asian Development Bank (Strategy, Policy and Review Department).
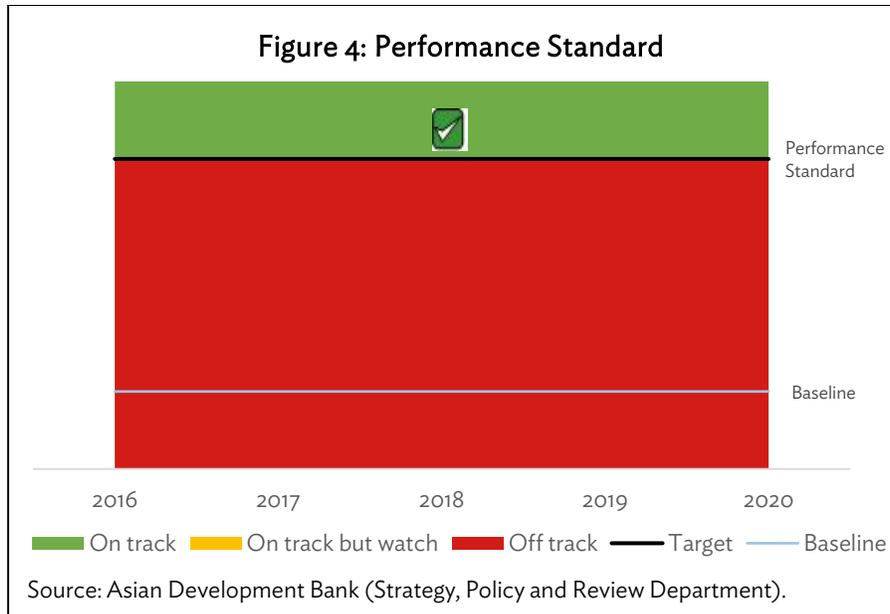
5. Maintain

18. The "maintain" scoring method is a variation 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: Maintain

Source: Asian Development Bank (Strategy, Policy and Review Department).

6. Above Baseline

19. The "above baseline" scoring method is a variation of the performance standard method. It sets the threshold value at one measurement unit above the baseline level (Figure 6). The value needs to be met each year. Hence, the threshold value for an indicator with a baseline of 24.8 is set at 24.9.

Performance standard or better	Performance (rounded) is better than or equal to the baseline plus one
Worse than the performance standard	Performance (rounded) is worse than the baseline plus one

Figure 6: Above Baseline

Source: Asian Development Bank (Strategy, Policy and Review Department).
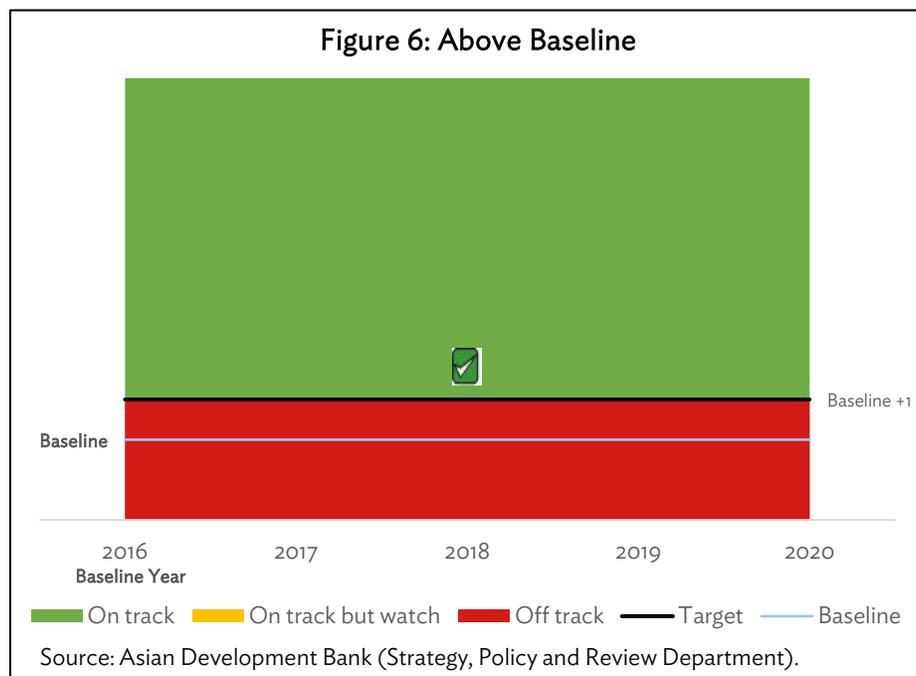
7. Increase

20. The "increase" scoring method is used for web-distributed knowledge solutions. The indicator's signal is based on two criteria: (i) the average annual improvement since the baseline year is larger than or equal to 3%, and (ii) the annual improvement is larger than or equal to 3%.

During 2017–2019:

On track	Both are met
On track but watch	Only one is met
Off track	Neither is met

During 2020:

Target met	Both criteria or criteria (i)
Target not met	Neither criteria or criteria (ii) only

8. Cumulative Indicator

21. The scoring method for "cumulative indicators" is used for project development transactions for public–private partnerships (total number from 2013) (Figure 7). The scoring method assumes that performance increases in equal increments each year and accumulates to the cumulative target (hence a straight target line). Some deviation from this line is allowed in which the indicator is considered *on track but watch*. The standard initial bandwidth is 10% of the average baseline and target, which would result in bandwidths of 7.5% (2017), 5.0% (2018), and 2.5% (2019).

During 2017–2019:

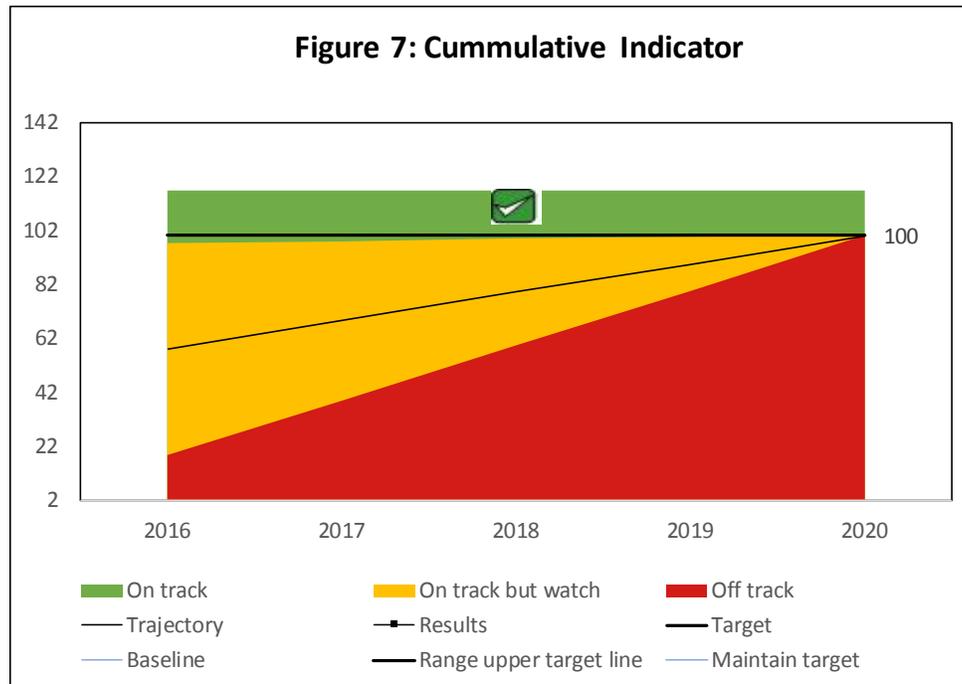|	
Target met	At or above cumulative total
On track	Progress is above the predetermined band
On track but watch	Progress is toward the target within a predetermined band
Off track	Progress is below the predetermined band

During 2020:

Target met	At or above the cumulative total
Target not met	Below the cumulative total

Figure 7: Cummulative Indicator

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

9.   Monitor

23.   No color is assigned for indicators that are monitored, as these are not assessed against targets and they have no impact on the composite signals. A downward or upward arrow is shown if there is a change in the most recent previous value.

D.   Arrows to Report Annual Change

24.   Arrows represent annual deteriorations or improvements. A downward or upward arrow is shown if the change is large enough to justify a signal (Figure 8). No arrow is shown if annual change remains below a threshold of 3% of the most recent previous value. For results indicators that are monitored, the arrow shows the direction of movement only. No arrows are shown for core operational results in Level 2, as there is no comparison to past baseline achievement rates.

> ## Figure 8: Annual Change of Results Indicators
>
> ⇧ significant improvement (≥3%)
>
> remained stable (no arrow)
>
> ⇩ significant deterioration (≥3%)
>
> Source: Asian Development Bank (Strategy, Policy and Review Department).

E. Integrating Progress and Annual Change

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

Table 3: Signals for Level 2–4 Indicators

Scoring Method	Signal	Annual Change[a]
At or above target—performance at or above target	✅	
On track—performance exceeded desired progress to attain 2020 target	🔼	Improved
	🟩	Remained stable
	🔽	Deteriorated
On track but watch—performance met desired progress to attain 2020 target but requires close monitoring	🔼	Improved
	🟨	Remained stable
	🔽	Deteriorated
Off track—performance fell short of desired progress to attain target	🔼	Improved
	🟥	Remained stable
	🔽	Deteriorated
Monitor—no performance assessment	⬆	Increased
	⬜	Remained stable
	⬇	Decreased

[a] An arrow indicates a significant (≥3%) change from previous performance: an arrow pointing up indicates improvement; an arrow pointing down indicates deterioration. There are no arrows for core operational results (Level 2), as there is no comparison with past and/or baseline achievement percentages. For results indicators that are monitored, the arrow shows the direction of movement only.
Source: Asian Development Bank (Strategy, Policy and Review Department).

IV. COMPOSITE INDICATORS

26.   The composite indicators provide an overview of the performance for a particular group of indicators. Table 4 summarizes how these indicators are derived.

Table 4: Composite Signals for Levels 2–4

Signal		Explanation
🟢	*good*	Two-thirds or more of results indicators in the group achieved a green or amber signal and half or more achieved green signal.
🟡	*mixed*	More than half but less than two-thirds of results indicators in the group achieved a green or amber signal or two-thirds or more of results indicators in the group achieved a green or amber signal but less than half achieved green signal.
🔴	*poor*	Half or less of results indicators in the group achieved a green or amber signal.

Source: Asian Development Bank (Strategy, Policy and Review Department).

APPENDIX 1: LEVEL 2–4 SCORING METHODS FOR 2017–2019

Type	Target	Notes		Applied to[a]
Achievement rate	Annual	• At or above target • Below target	☑ (green check) 🟥 (red)	Level 2: Core operational results
Point target	2020	• At or above target • Above band from baseline to target • Within band from baseline to target • Below band from baseline to target	☑ (green check) 🟩 (green) 🟨 (yellow) 🟥 (red)	Level 2: Quality at completion Level 3: indicators 3–6, 8, 13–15, 18–19, and 21 Level 4: Indicators 2, 6, and 9
Range	2020	• Within the target range • Above band from baseline to target • Within band from baseline to target • Below band from baseline to target	☑ (green check) 🟩 (green) 🟨 (yellow) 🟥 (red)	Level 3: Indicators 16 (financing for education) and 17 Level 4: Indicators 4 and 5
Performance standard	Annual	• Performance standard or better • Worse than the performance standard	☑ (green check) 🟥 (red)	Level 3: Indicators 1, 2, 16 (financing for Strategy 2020 core operational areas), 23 Level 4: indicators 1, 3, and 7
Maintain	Annual	• Baseline or better • Worse than the baseline	☑ (green check) 🟥 (red)	Level 3: Indicator 7 Level 4: Indicator 8
Above baseline	Annual	• One measurement unit above the baseline or better • Worse than the baseline plus one measurement unit	☑ (green check) 🟥 (red)	Level 3: Indicators 12, 20, and 24
Increase	Annual	• Criteria used: 1. Average annual improvement since baseline year larger than or equal 3% threshold 2. Annual improvement larger than or equal 3% threshold • Both criteria • Only one criteria • Neither	 ☑ (green check) 🟨 (yellow) 🟥 (red)	Level 3: Indicator 22
Cumulative indicator	2020	• Above cumulative target • Performance is expected to increase each year and add up to the cumulative target • Performance is on track to reach the target but requires close monitoring • Below cumulative target	☑ (green check) 🟩 (green) 🟨 (yellow) 🟥 (red)	Level 3: Indicator 9

Type	Target	Notes		Applied to[a]
Monitor	2020	• Only arrows are shown • No impact on summary scorecard	⇧ ☐ ⬇	Level 3: Indicators 10 and 11

[a] Refers to the results framework indicator numbers used in the Transitional Results Framework, 2017–2020 and development effectiveness review.
Source: Asian Development Bank (Strategy, Policy and Review Department).

APPENDIX 2: LEVEL 2–4 SCORING METHODS FOR 2020

Type	Target	Notes		Applied to[a]
Achievement rate	Annual	• Better than target	☑	Level 2: Core Operational Results
		• Worse than target	🟥	
Point target	2020	• At or above target	☑	Level 2: Quality at Completion Level 3: indicators 3-6, 8, 13-15, 18–19, 21 Level 4: indicators 2, 6, 9
		• Below target	🟥	
Range	2020	• Within the target range	☑	Level 3: indicators 16 (financing for education) , 17 Level 4: indicators 4, 5
		• Outside the target range	🟥	
Performance standard	Annual	• Performance standard or better	☑	Level 3: indicators 1, 2, 16 (financing for Strategy 2020 core operational areas), 23 Level 4: indicators 1, 3, 7
		• Worse than the performance standard	🟥	
Maintain	Annual	• Baseline or better	☑	Level 3: indicator 7 Level 4: indicator 8
		• Worse than the baseline	🟥	
Above baseline	Annual	• One measurement unit above the baseline or better	☑	Level 3: indicator 12, 20, 24
		• Worse than the baseline plus one measurement unit	🟥	
Increase	Annual	• Criteria used: 1. Average annual improvement since baseline year larger than or equal 3% threshold 2. Annual improvement larger than or equal 3% threshold		
		• Both or criteria 1 only	☑	Level 3: indicator 22
		• Neither or criteria 2 only	🟥	
Cumulative indicator	2020	• At or above cumulative target	☑	Level 3: indicator 9
		• Below cumulative target	🟥	
Monitor	2020	• Only arrows are shown • No impact on summary scorecard	⬆ ⬜ ⬇	Level 3: indicators 10,11

[a] Refers to the results framework indicator numbers used in the Transitional Results Framework, 2017-2020 and development effectiveness review.
Source: Asian Development Bank (Strategy, Policy and Review Department).

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 and range 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 results indicators. The volatility-based bandwidth around the target line Y^T, is determined by assuming that the observed results 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, ϵ_i , such that

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

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

ϵ_i is a random variable with zero mean. Volatility of ϵ_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 ϵ_i is a challenge due to the lack of sufficient data for many results indicators. Where data are available, the standard deviation of ϵ_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 ϵ_i. The confidence level is set at 95%.

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

For indicators where higher values are targeted:

Criteria	Color
$Y_i > Y_i^T + \text{margin of error}$ and $Y_i < \text{Target}$	🟩
$Y_i^T - \text{margin of error} \leq Y_i \leq Y_i^T + \text{margin of error}$ and $Y_i < \text{Target}$	🟧
$Y_i < Y_i^T - \text{margin of error}$ and $Y_i < \text{Target}$	🟥

For indicators where lower values are targeted:

Criteria	Color
$Y_i < Y_i^T + \text{margin of error}$ and $Y_i > \text{Target}$	🟩
$Y_i^T - \text{margin of error} \leq Y_i \leq Y_i^T + \text{margin of error}$ and $Y_i > \text{Target}$	🟧
$Y_i > Y_i^T - \text{margin of error}$ and $Y_i > \text{Target}$	🟥

B.   Step 2: Initial Bandwidth Classifications

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

Table A3: Classification of Bandwidths

Category	Volatility-Based Bandwidth	Assigned Prudent Bandwidth
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.
Source: Asian Development Bank (Strategy, Policy and Review Department.

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 results indicator starts to deteriorate. Note that a classification into narrower bandwidths is also likely to provide fewer "*watch*" signals for results 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.[1]

---

[1] Results indicators for which no volatility-based bandwidth could be calculated due to limited data are usually considered to be of medium volatility.