

Outlined Changes to DFI Transparency Index Methodology

This paper outlines changes that we have made to the draft DFI Transparency Index methodology. Changes have been made in response to feedback given during three stakeholder consultations, direct feedback provided by stakeholders, and reflections within the team after further assessments.

1. Changing the Sample Timeframe from 2018 Onwards to 2020 Onwards.

Our methodology proposed sampling projects from 2018 onwards to assess project-level transparency. This approach was challenged along two lines:

1. It was argued that the timeframe was not in line with policy updates from DFIs and, as such, we would be capturing projects that were disclosed using old disclosure practices that are not representative of their current practice. It was suggested that we should instead sample from projects that have been approved since the latest policy update of each DFI.
2. More broadly, it was argued that a timeframe beginning in 2018 is too early. This was a more general statement that practices have changed significantly since 2018 and we should be measuring newer projects to capture current practice.

After careful consideration, we felt that we could not use policy updates as a guide to sample projects for a number of reasons. First, there are often significant time delays between the updating of policies and when they are implemented. The extent of these delays are not easy to establish so it would be difficult to determine when to start each sample timeframe. Second, there is ambiguity around which policies we should take into account as not all changes to transparency practice are tied to changes in disclosure or transparency policies, but are rather tied to new commitments at organisation level. For example, two of the most significant developments in disclosure at IFC are the disclosure of financial intermediary sub-investments and of the concessional elements of blended finance projects. Neither of these developments resulted from changes to IFC's transparency policy, that hasn't been updated since 2012.

We have taken the argument concerning a 2018 onwards timeframe being too long into account and have adjusted our approach accordingly. **We will therefore be drawing our sample from 2020 projects onwards.** One key consideration in this decision was the fact that we intend the DFI Transparency Index to be a biennial assessment and there is therefore a strong advocacy argument for aligning the timeframe of analysis. Doing so arguably improves the incentives for DFIs to improve disclosure as they can have a higher degree of confidence that if they change practices going forward, these changes will be reflected in future assessments.

2. Use of a Different Sampling Method for Concessional and Financial Intermediaries.

Our DFI Transparency Tool asks that DFIs disclose the lack of certain features as well as their presence. For example, the Tool encourages the disclosure of the fact that a project is not concessional as well as if a project is concessional. While we stand by this approach as an end-goal, we received feedback from a number of stakeholders that this was considered burdensome. Furthermore, as this is not current practice, using a random sample approach across the whole of a DFI's portfolio would likely fail to accurately capture current disclosure practices. As such, for indicators that measure disclosure of information that may not be disclosed in all instances we will use a form of purposive sampling to identify projects to measure. This will apply to Indicator 41

“Concessionality” and Indicator 47 “FI (bank) Sub-Investments”. In each case, disclosure arguably only applies to a subset of a DFI’s portfolio and it is therefore necessary to identify applicable projects. We will therefore use a three-step process to identify applicable projects:

1. Using available filters to identify relevant projects.
2. Where filters are not available, we will request identification of relevant projects from the DFI accompanied by a statement that the projects identified represent the totality of that type of project.
3. Where a DFI does not respond or declines to identify the relevant projects, we will use the standard random sample that we use for other indicators.

We consider the use of existing database filters to identify applicable projects an appropriate method as such filters improve the accessibility of data and therefore represent a legitimate way of identifying appropriate disclosure practices.

Owing to time constraints, our first round of analysis (which does not affect the final score) will use steps 1 and 3 only. In instances where a DFI fails either indicator, we will use step 2 to refine the sampling process.

The DFI Transparency Tool retains its advice to use “negative disclosure” to improve the accessibility of data.

3. Adjusting Sampling Approach for Indicator 24 “Results”.

In our draft methodology Indicator 24 “Results” (please note, the results indicator has changed from number 23 to number 24) was intended to be assessed with a sample of projects from 2018 and 2019. We have adjusted this approach to split the sampling for the indicator. In the current methodology, we will use a 2018-2019 sample for the “actual” survey questions, while using the main sample to assess “baseline” and “target” survey questions.

4. Adjusting Scoring Approach for Indicator 1 “Disclosure/Access to Information Policy”.

Indicator 1 “Disclosure/Access to Information Policy” awards points based on quality assessments in line with the Global Right to Information (RTI) Rating. Three aspects contribute to the rating:

1. Presumption of disclosure.
2. Limitations on commercially sensitive information and sensitive internal deliberations.
3. Independent appeals process.

Following test run assessments, we have made the decision to award points for the disclosure of the disclosure/access to information policy, with additional points made in line with the above quality checks. This is to ensure that if a DFI has a disclosure policy that does not satisfy the quality checks, it still gains more recognition than a DFI without such a disclosure or access to information policy. The survey questions will therefore be structures as follows:

1. Does the DFI have a disclosure/access to information policy? (0.75 points)
2. Does the policy include a presumption of disclosure? (0.75 points)
3. Does the policy have limitations of commercially sensitive information and sensitive internal deliberations information? (0.75 points)
4. Does the policy have an independent appeals process? (0.75 points)

5. Merging Survey Questions in Indicator 6 “Project Description”.

In our draft methodology, Indicator 6 “Project Description” has three survey questions:

1. Does the DFI disclose a description of the activity?
2. Does the DFI disclose a project/activity objective/rationale?
3. Does the DFI disclose the expected outcomes of the activity?

Having conducted a number of trial run assessments, it has become clear that the second and third survey questions are too similar and it is often hard to differentiate disclosure between them. As such, we have decided to merge the second and third survey questions. The survey questions for the indicator are therefore now:

1. Does the DFI disclose a description of the activity?
2. Does the DFI disclose the objectives, rationales, and expected outcomes of the activity?

6. Adjusting Indicator 21 “Additionality Statement”

Indicator 21 “Additionality Statement” is currently structured with two survey questions:

1. Does the DFI disclose the development additionality of its investment?
2. Does the DFI disclose the financial additionality of its investment?

The indicator was constructed in this way to recognise the two forms of additionality that exist. A DFI scores half marks for disclosure of each type of additionality. However, feedback during our consultations highlighted the fact that not all investments are considered to have development and financial additionality. As such, we have restructured the indicator as follows:

1. Does the DFI disclose the development additionality of its investment?
Or
2. Does the DFI disclose the financial additionality of its investment?

Under the new structure, the full amount of points for the indicator will be awarded if a DFI discloses either development additionality or financial additionality. The DFI Transparency Tool will still provide guidance that in instances where both forms of additionality exist, both should be disclosed.

7. Removing “Region” from Indicator 7 “Location”.

Indicator 7 “Location” is currently structured as follows:

1. Does the DFI disclose the region the activity takes place in?
2. Does the DFI disclose the country the activity takes place in?
3. Does the DFI disclose the sub-national location the activity takes place in?

We have attempted to align this indicator with the IATI standard. However, the IATI standard does not allow for disclosing the region of activities in instances where the activity takes places in a single country. Furthermore, numerous DFIs use different groupings for region identification which makes the use case for disclosure weaker. Therefore, we have decided to remove the first survey question, structuring the indicator as follows:

1. Does the DFI disclose the country the activity takes place in?
2. Does the DFI disclose the sub-national location the activity takes place in?

In the case of IATI, disclosure of sub-national locations will be treated as sufficient for both survey questions as sub-national locations are unambiguously nested within national locations.

8. Adjusting Measurement Approach for E&S Document Disclosure

Indicator 31 “E&S Project Plans/Assessments” currently has two survey questions:

1. Does the DFI disclose what E&S documentation was produced for the activity?
2. Does the DFI disclose all produced E&S documents for the activity?

In addition, the guidance in the tool says, “At a minimum, either an Environmental and Social Impact Assessment (ESIA), a summary Environmental and Social Management System (ESMS), or a summary of the key E&S risks, impacts and mitigation should be disclosed.”

We designed the questions in this way because many DFI policies say documents that are produced and/or disclosed are commensurate with the risks of a project. This makes it difficult to ascertain what documents should be disclosed for each investment and therefore hard to assess disclosure practices. By asking DFIs to say what was produced and to disclose all documents we felt measurement would be simplified.

However, on reflection we feel that while the tool represents a realistic and ambitious target for disclosure, it does not reflect current practice. As such, we have restructured the indicator to establish minimum expectations, alongside the above survey questions. The minimum requirements we intend to establish are as follows:

- Category A (or equivalent): Environmental and Social Impact Assessment (ESIA) and Stakeholder Engagement Plan (SEP).
- Category FI1 (or equivalent): Environmental and Social Management System (ESMS).
- Category B (or equivalent): ESIA unless it is explicitly stated that an ESIA was not required.
- Category FI2 (or equivalent): summary of ESMS unless it is explicitly stated that an ESMS was not required.
- Category C (or equivalent): justification for risk categorisation including description of associated environment and social (E&S) risks.
- Category FI3 (or equivalent): justification for risk categorisation including description of E&S risks.

Two points will be awarded for minimum disclosure while two further points will be awarded if disclosure is in line with the tool.

9. Adjusting Assessment of Evaluation Transparency.

In our draft methodology, we assessed the disclosure of evaluations at both the organisational level and the project level. At organisational level, the survey question “does the DFI have a policy on the evaluation of investments?” was embedded in Indicator 19 “Impact Measurement Approach”. At project level, Indicator 24 “Evaluation” was composed of two survey questions: “Does the DFI

disclose whether an evaluation been completed for the activity?” and “If so, does the DFI disclose the evaluation?”

Feedback from our consultations indicated that DFIs were uncomfortable with having to disclose the lack of evaluations in relatively new projects as it was not in keeping with their practice and could be interpreted to mean that an evaluation should have been done when it was not appropriate. With this in mind, we have decided to merge the assessment of evaluations and create a new indicator at organisation level. Indicator 21 “Evaluations” will be composed of two survey questions:

1. Does the DFI have a policy on the evaluation of investments?
2. Does the DFI disclose the evaluations that it conducts?

The second survey question will be conducted on a qualitative basis and will not seek to make a statistical assessment of the disclosure of assessments.

Weightings within the ESG and Accountability to Communities component have been adjusted to accommodate this change. Total component weightings remain unchanged. Indicators following this will be renumbered accordingly.

10. Including Date of Signature in Indicator 17 “Progress Dates”.

Indicator 17 “Progress Dates” is currently structured as follows:

1. Disclosed date?
2. Approval date?
3. Last update date?

Our test runs assessments have highlighted the fact that numerous DFIs disclose the date of signature rather than the date of approval for their activities. On reflection, we have decided that there is a convincing use case for the disclosure of both approval dates and signature dates as they represent important milestones within the investment cycle. As such, we have restructured the indicator as follows:

1. Does the DFI disclose the date of activity disclosure?
2. Does the DFI disclose the approval date of the activity?
3. Does the DFI disclose the signature date of the activity?
4. Does the DFI disclose the last update date of the project data?

Points awarded for the indicator will be evenly distributed between the four survey questions.

11. Introducing a Carve-Out for Equity Investments in Indicator 46 “FI (Bank) Use of Funds”.

Indicator 46 “FI (Bank) Use of Funds” is designed to assess whether DFIs disclose the intended use of funds in their financial intermediary investments. Feedback from consultations highlighted the fact DFIs cannot establish what funds are used for when equity investments are made as they are made into the whole of a financial intermediary. As such, the DFI is linked to the entirety of the financial intermediary’s portfolio through ownership. We will therefore limit our assessment of the disclosure of use of funds, excluding any equity investments within the sample.

12. Changing the Penalty for Lack of Timely Disclosure.

The draft methodology proposed a 25% penalty to be applied to all project-level indicator scores for DFIs that did not disclose a near-complete set of activities for 2021 (for discussion of how we will assess completeness please see Section 4.6 of the methodology). We proposed a 25% penalty as this was in line with the one year of the four years that would form our sample timeframe. As we have reduced the sample timeframe to two full years, we have increased the penalty for failing to disclose a near-complete set of activities for 2021 to 50% of points awarded for project level indicators. For DFIs that have no disclosure since 2020, a 100% penalty will be applied to project-level indicators.

13. Creation of Methodology Matrix.

We have removed the tables relating to format of disclosure are indicator weighting from the main body of the methodology and created a “methodology matrix” that is attached here as an annex. The matrix is designed to function as a “one stop shop” for the methodology, outlining for each indicator the survey questions, format, IATI alignment, scoring approach, sampling approach, and weightings.