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Transparency at Development Finance Institutions

Moving to Better Practice

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Development finance institutions (DFIs) suggest that transparency is important to their development impact, and many aim to be in a leadership position on reporting about their work.[1] The Multilateral Development Bank Principles to Support Sustainable Private Sector Operations note that "MDB private sector operations should seek to promote adherence to high standards of conduct in their clients" including around transparency. A particular priority is "[e]nsuring that subsidies are transparent,"[2] something also highlighted in the OECD Tri Hita Karana Roadmap for Blended Finance.

That said, actual practice on transparency varies significantly between DFIs, with different institutions more transparent in different areas. For example, and ahead of the norm, CDC and OPIC have demonstrated it is possible to regularly publish information on sub-investments while the IFC publishes subsidy estimates for blended finance projects. But no DFI publishes all of the information that could and should be provided. Todd Moss, Ben Leo, and Jared Kalow identified five standards of DFI transparency: an annual list of all projects or investments; data availability for at least five years; detailed investment- or project-level information; data on the projected and ex post impact of the project; and data available through a user-friendly, machine-readable database. None of the DFIs they examined in 2016 had more than three out of five. ODI's Attridge and Engen note that there is "a clear disconnect between high-level political commitments to transparency and accountability and operational policies and rules."

A number of actors have suggested comprehensive lists of what is or should be published. CDC publishes a useful list of what it already discloses. Eurodad has published a set of information that it argues all DFIs should publish, as well as processes for release and exceptions. The UN OHCHR has suggested principles and Oxfam has provided detailed analysis particularly in the area of financial

1 The IFC and CDC have both claimed they want to be leaders in the area of DFI transparency, and the leadership of the new US DFC has said the same thing.

2 The Private Sector Development Institutions Roundtable, made up of DFI representatives, provides somewhat weaker guidance, saying "When confidentiality permits, DFIs should aim to report on their concessional programmes, including quantification of subsidy levels and the results of these programmes, including, if possible, on the incremental impact of concessional finance."

intermediaries. George Ingram and Sally Paxton have suggested guidelines for publication at the USDFC. This note builds on that work to suggest why transparency matters to DFIs, what should be disclosed and how.

WHY TRANSPARENCY?

IFC's Access to Information Policy states that "[t]ransparency is essential to building and maintaining public dialogue and increasing public awareness about IFC's development role and mission. It is also critical for enhancing good governance, accountability, and development effectiveness. Openness promotes engagement with stakeholders, which, in turn, improves the design and implementation of projects and policies, and strengthens development outcomes."

DFIs use public funds and make investments designed to support people in developing countries. Both the taxpayers that provide those funds and the targeted beneficiaries have a right to know how this finance is being used. This is especially true in the case of noncompetitive subsidy allocation, which raises additional governance concerns. Greater transparency will reassure all parties that development finance is a worthwhile use of public money.

Transparency helps inform potential clients of what they can expect from working with a DFI, which will increase the pipeline of quality projects. It also increases any demonstration effect of projects that involve a subsidy. The purpose of a bespoke subsidy to an individual firm providing a new service or product in a market is to support an information spillover in the form of demonstrating the viability of a new productive activity in an economy.[3] Information on the terms and details of projects will help all firms understand the costs and market for the new product or service.

Again, transparency will help reduce the risk of subsidy competition between DFIs—where institutions compete for projects on the basis of the scale of the subsidy they offer. Subsidy competition significantly reduces the development impact of DFI investments.

Finally, transparency helps protect people who might be negatively affected by a DFI-financed project. As Oxfam's Christian Donaldson and Shona Hawkes have argued: "For vulnerable and marginalized communities, the need for transparency and disclosure of project-related information is real and urgent." They note that the issue applies to on-lending through financial intermediaries which "appears to neglect principles and standards DFIs have put in place to ensure greater accountability after years of learning," despite the fact that many problematic sub-financed projects have come to light.

PRINCIPLES OF TRANSPARENCY

DFIs are owned by governments. They should follow principles for government contract transparency. That means that publication should be by default and exceptions should be in the public interest.

With regard to the project agreements and related documents signed by DFIs, the principle that contracts signed by government agencies are public documents that can be published is already enshrined in law in many cases around the world, and there is an increasing move to proactive publication. Few DFI projects should raise legitimate national-security and privacy concerns regarding publication,

3 As the Private Sector Development Institutions Roundtable notes, for concessional finance directed at the private sector to result in a sustainable outcome, "there should be an expectation that similar private sector projects will in the future become viable without requiring concessionality."

although such issues should be addressed by DFIs working with project host governments. This leaves the issue of commercial confidentiality, which is the most commonly raised objection to greater transparency by DFIs.

Redactions on the basis of commercial sensitivity should only be justified where the public interest in withholding information is greater than the public interest in having that information published. That means the assessment as to whether to publish information should take into account both any commercial harm to the contractor and the broader benefits of transparency to markets and public trust.

DFIs are yet to meet that standard. IFC's Policy on Disclosure of Information states that "there is a presumption in favor of disclosure," but it also suggests that "IFC does not disclose to the public financial, business, proprietary or other nonpublic information provided to IFC by its clients or other third parties." Much of this information may be in the public interest to redact: project documents may contain reference to financing terms and process information regarded as commercially sensitive, and these can be valid grounds for redacting information. But it is worth noting two points: this does not include details of the financing terms provided by DFIs themselves and interests in protecting commercial sensitivity should be balanced against the broader public interest in information disclosure.

Donaldson and Hawkes note the weakness regarding confidentiality of financial intermediary final investments in particular: "[t]he arguments of client confidentiality and perceived competitive disadvantage ignore the fact that many banks and other financial institutions already disclose publicly their client relationships. Information about deals—including client identity, project details, sector, and deal size—is provided to banking and finance industry databases, such as Thomson Reuters Eikon."

Again, the Equator Principles are a financial industry benchmark for determining, assessing, and managing environmental and social risk in project finance including transparency measures. One hundred and seven Equator Principles Financial Institutions in 38 countries have officially adopted the Principles, covering over 70 percent of international project finance debt in emerging markets. Donaldson and Hawkes report that signatories to the Equator Principles already report 73 percent of all socially or environmentally high-risk (category A and B) projects they finance even though this takes client consent for disclosure. It is clearly usually no great cost to competitiveness to publish this information.

IFC's Office of the Compliance Advisor Ombudsman notes that client confidentiality provisions typically applied in the financial markets in which IFC operates can make information release more complex. Disclosures can also be restricted by national laws covering securities or banking. But in cases where national law restricts information release that would otherwise be compelled by DFI disclosure requirements, there should be no presumption that this is sufficient reason to continue with the investment absent disclosure—the broader public interest test should still apply, and in cases where publication is in the public interest but against local law, this may be grounds for deciding the investment should not go ahead.

DFIs have a particular responsibility to disclose information when investing in firms that are themselves contracting with governments to provide services or as part of an extractive industry license and royalty system. The World Bank Framework for Disclosure in Public-Private Partnerships suggests what should be disclosed in the case of PPPs including financial information, government support, tariffs and tariff methodology, and performance contract termination: termination provisions, renegotiations, or changes.

WHAT SHOULD BE MINIMALLY PROACTIVELY PUBLISHED?

At the level of the DFI:

- *Institutional policies and guidelines:* Organizational procedures, rules, and directives; investment policies and policies related to environmental, social, governance, and business integrity issues; risk management policy; transparency and disclosure policy; process for submitting complaints or whistleblower reports.

- *Information on investment and evaluation processes* including the types of investment offered, the countries and sectors invested in, and eligibility criteria (including for subsidy award/scale); country framework agreements or strategies as well as sector strategies; method for calculating any subsidy element of investment—the formula along with the data used, where that is not proprietary; method of determining environmental and social risks and guidelines and rules regarding mitigation strategies; payment of taxes and offshore financial centers policy; approach to development impact, including economic rate of return methodologies (if used), monitoring and evaluation frameworks, and methodologies.

- *Decision-making*: Key people and decision-making structures including organizational structure, membership of boards of directors, and management; minutes of board meetings.

- *Finance and employment:* Budgetary and financial information including annual review and annual accounts source of funds and capital structure; operating costs; information on pay and benefits offered to employees and directors including aggregate payment data (gender disaggregated).

- *Portfolio information:* All companies and funds currently or previously invested in—including total amount and nature of financial support; aggregate portfolio information by country and in each sector: number of projects and companies; dollar total; reported taxes paid by the companies in the portfolio in each country; gender breakdown of company ownership/management; aggregate development impact metrics.

- *Technical assistance support:* Nature and funding, eligibility criteria for access, tied status, list of beneficiaries, and cost of support.

At the level of the investment project, preferably the entire text of the agreements between the DFI and client firms, but at the least:

- *Basic features:* Status of the investment (open/closed); region; sector and country of operation; geographic location; investment type; investment start and end date; objectives and rationale for making investment; type of exit.

- *Client company details:* Company domicile and primary tax domicile; contact details; beneficial ownership and senior management.

- *Financial details:* Amount invested, terms and financing structure; percentage ownership stake in equity investments; size/terms of any subsidy element and economic justification for subsidy.

- *Safeguards:* Environmental and social impact assessments; full details of client implementation of stakeholder engagement, mitigation measures.

- *Impact:* Description of intended impact of the investment and development impact justification including anticipated and re-evaluated economic rate of return estimates and calculations if available along with gender-disaggregation of impact; summary description of achieved impact and related data (including gender disaggregation of impact); project evaluations; audits; defaults/restructuring.

For funds, a subset of the above information should be available for all sub-investments larger than a public, standard dollar threshold (perhaps $250,000) *and* for all projects with high social or environmental risk. This subset should include: status of the investment; region; sector and country of operation; geographic location; investment type; investment start and end date; company domicile and primary tax domicile; contact details; beneficial ownership; amount invested; environmental and social impact assessments where required. The on-distribution of subsidy amounts to above-threshold and environmentally and socially sensitive sub-projects through financial intermediaries should also be published. Following best practice, the entire text of government contracts linked to extractive or public-private partnerships being financed by DFIs should also be published.

TRANSPARENCY MECHANISMS

Again, DFIs should default to proactive, full publication of documents when they become available, use redaction where necessary as a fallback and limit delayed or non-publication to rare cases. DFI boards of directors should be the final arbiters of the public interest between transparency and confidentiality, and should approve detailed guidance on how determination of the public interest is made.

DFIs should publish full lists of formal documents both published and unpublished and provide details on the process for requesting unpublished documents (which should be rapid and low cost). When information is withheld, the fact that it has been withheld and the public interest case for withholding it should be made public. DFIs should also publish details of an appeals mechanism in the case that documents are denied or redacted. As part of this mechanism there should be clear timeframes for responding to requests without requirement for justification or identification, with narrow and specific reasons for denials and procedures for appeals, and positive overrides (permitting information disclosure where a legitimate interest outweighs commercial sensitivity issues).

Transparency should be built into DFI operations—in particular competitive and open standard offer approaches can help guarantee a level of transparency. And the principle should be that transparency requirements are higher for non-competitive approaches and higher again when subsidized finance is involved. Lower levels of transparency should lead to greater scrutiny from compliance/audit officers.

DFIs should include transparency clauses in contract arrangements with clients that mandate them to publicly disclose important information. And they should support financial intermediaries to understand how to disclose information in their legal context. They should require that all financial intermediaries request consent if required of their future clients to publicly disclose their name, project name, financing amount, sector, and location for every investment over the threshold amount as well as any environmentally or socially sensitive project. They should require all financial intermediaries to develop a disclosure policy and set up the appropriate mechanisms for disclosure and transparency.

Wherever possible documents should be released as they become available. This is particularly important regarding project information available in advance of board approval regarding investee companies and environmental and social analyses. In cases where publication is delayed, the reason and timing for delay should be published. It is particularly important that information released in advance of investment is available in a format and language that allows for affected communities to access and understand it.

Information should be available in a machine-readable form. Wherever possible, information ought to be presented in a standardized format, with aggregate data presented as a sum of project-level data available in the same spreadsheet or database.

COOPERATION

Common standards across DFIs will help ensure the maximum development impact of transparency: easing comparison and reducing "opacity shopping" by clients. A number of DFIs already publish to the International Aid Transparency Initiative, including the IFC and CDC. Again, 25 international financial institutions have signed up to the HIPSO Indicators for project impact measurement: 38 reporting indicators with agreed definitions across 15 different sectors and industries from average agricultural yield to power production.

Again, Attridge and Engen suggest that the OECD Development Assistance Committee should create a standardized reporting effort to publish the "grant equivalent" of blended-finance transactions to the OECD Creditor Reporting System. Preferably this should be expanded into a standardized reporting template for all disclosed information.

Finally, DFIs that are part of the GEMs Risk Database should agree to publish the credit risk data it provides, suitably aggregated and anonymized if and where necessary. Providing this information would help justify subsidy allocations and help private sector financiers to evaluate risk in developing countries, furthering the public policy aims of DFIs.

CONCLUSION

The more rapidly DFIs move towards greater transparency, the greater their development impact. Transparency will increase the pipeline of projects, support market making, reduce subsidy costs, improve governance, and reduce risks associated with environmentally and socially sensitive projects. It will also increase trust amongst stakeholders and reassure taxpayers. Many DFIs have some way to go to meet existing best practices in transparency; all have some way to go to reach what is possible. It is time to close the gap.

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