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SUPPLEMENT TO THE GUIDANCE NOTE FOR THE USE OF THIRD-PARTY INDICATORS IN FUND REPORTS

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The staff report was issued to the Executive Board for information. The report was prepared by IMF staff. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

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**SUPPLEMENT TO THE GUIDANCE NOTE FOR THE USE OF
THIRD-PARTY INDICATORS IN FUND REPORTS**

Supplement to the Guidance Note for the Use of Third-Party Indicators in Fund Reports

This supplement to the [Guidance Note for the Use of Third-Party Indicators in Fund Reports](#) (TPI GN) provides guidance to staff on indicators not to be used in Fund reports, and revises the frequency of updates to the Third-Party Indicators Digest. All other provisions of the TPI GN remain in effect.

A. Use of Indicators

1. This section provides guidance to staff on Third-Party Indicators (TPIs) not to be used in Fund reports. The Fund's TPI framework, in principle, does not preclude staff from using any specific indicator provided that it is used in line with guidance in the TPI GN. Notwithstanding this approach, on rare occasions, serious concerns about underlying data of an indicator may emerge, and compilers may pause, or withdraw, their publication.

2. Staff will be informed when a TPI is considered compromised and will be directed to adopt the following practices (see also ¶4 and Box 1):

- **Compromised TPI.** Staff must discontinue use of the compromised TPI in Fund work until directed otherwise.
- **Indicators sourced from the compromised TPI.** In cases where another indicator uses the compromised TPI as source data, the use of this indicator must also be discontinued. However, if some sub-components of the indicator do not use the compromised TPI, these sub-components can still be used in Fund work. Also, the indicator may be modified to remove or replace components that are based on the compromised TPI. In such cases, the index name should be modified to differentiate it from its original (e.g., "Modified Index"), an explanation of the nature of the modification should be included, and any implications of the modification on the interpretation of the index should be discussed (e.g., in a footnote or the notes of a figure).
- **TPI Digest.** Specific details and guidance on the compromised TPI may be provided in the subsequent TPI Digest update (for instance, whether the compiler plans to build a new indicator that addresses the data irregularities, or whether staff is advised to use an alternative indicator).

3. Reflecting the scope of the TPI GN, such guidance applies to all country documents, policy documents, and multi-country documents that are subject to the Fund's Transparency Policy (TPI GN, ¶1) and surveillance tools. To promote best practice, staff are encouraged to follow similar guidelines for other Fund documents that are not subject to the Transparency Policy (e.g., Regional Economic Outlooks, Staff Discussion Notes and Working Papers). Staff is further reminded that authoring departments have primary responsibility of ensuring the application of the TPI framework. The review process will help promote proper and consistent application of the TPI framework (TPI GN, ¶20).

4. An example of compromised TPI and implementation of the guidance outlined in ¶2 is the World Bank's Doing Business (DB) report. In view of the discontinuation of the World Bank's Doing Business (DB) report in 2021, staff has been directed to follow the guidance below:

- **DB indicators.** Staff must cease use of any DB indicators in Fund reports or other Fund work.
- **Indices which use DB indicators as inputs.** Aggregated indices for which the DB indicators are inputs to any of its components should not be used in Fund work. Aggregated indices may be modified to remove or replace components that are based on DB indicators. Such modifications have been done for the Notre Dame—Global Adaptation Initiative (ND-GAIN) (Box 1) and staff may use the “IMF-adapted ND-GAIN”. Sub-indices that do not use DB indicators as inputs can be used in accordance with the TPI GN.
- **2021 and 2023 TPI Digest updates.** Additional guidance on the use of DB and indicators sourced from DB is provided in the preface/introduction to the 2021 and 2023 TPI Digest updates.

Box 1. An Example of Usage of Indicators with DB Data as Inputs in Fund Work

The ND-GAIN index (as described in the [2015 Country Index Technical Report](#)) is a free open-source index that measures a country’s current vulnerability to climate disruptions and assesses a country’s readiness to leverage private and public sector investment for adaptive actions. ND-GAIN uses over 74 variables to form 45 core indicators that reflect the vulnerability and readiness of 192 countries from 1995 to the present. A country’s ND-GAIN Score is composed of a *Readiness Score* and a *Vulnerability Score*. The *Readiness Score* is measured using three sub-components—*Economic Readiness*, *Governance Readiness* and *Social Readiness*. The following considerations apply given the use of DB indicators:

- The DB indicators are used for the *Economic Readiness* sub-component of the *Readiness Score* as a measure of the investment climate that facilitates mobilizing capital from the private sector. Staff should therefore not use this sub-component, or any aggregate indices which contain this sub-component. This includes the standard *Readiness Score*, and the standard aggregate *Country Index*.
- The *Vulnerability Score* does not contain any DB inputs and hence can be used in Fund work. The *Social* and *Governance* sub-components of the *Readiness Score* can also be used.
- Modified aggregated indices for the *Readiness Score* or *Country Index* could be constructed by removing or replacing the *Economic Readiness* subcomponent of the *Readiness Score*. In such cases staff should refer to the “*Modified Readiness Score*” or the “*Modified Country Index*” and explain the construction of these variables along with potential implications for the interpretation of these modified variables.

In this particular case, to support staff’s work, STA has constructed a modified version of ND-GAIN (“IMF-adapted ND-GAIN”) which replaces the DB input to the *Economic Readiness* component, which is available on the IMF’s Climate Dashboard along with details on its construction. In this case staff should refer to the “IMF-adapted Readiness score” or the “IMF-adapted Country Index” and explain the construction of these variables in the document along with potential changes to the interpretation of these variables given the modification.

B. Third-Party Indicators Digest Updates

5. The TPI Digest will remain a living database with periodic review. Updates of the Digest will be demand-driven, but occur at least every two years, and will focus on emerging and macro-critical areas. While providing guidance to staff, the Digest is not an exhaustive compilation of all possible TPIs staff can or may want to employ in their analysis.