

26 May, 2017

Via Electronic Mail

Mr. Philippe Le Houerou
Executive Vice President and Chief Executive Officer
International Finance Corporation
2121 Pennsylvania Avenue, NW
Washington, D.C. 20433

Cc: Dr. Jim Yong Kim, President, World Bank Group

Dear Mr. Le Houerou

We thank you for the blog you posted before the Spring Meetings regarding the IFC's financial intermediary (FI) investments. We appreciate you taking time to respond to us in the blog, although we would also have welcomed the opportunity to meet with you as a group to discuss these important commitments in more detail.

We welcome the IFC's efforts to improve the quality and intensity of IFC's appraisal; supervision and capacity support to its financial intermediary (FI) clients, and especially those with investments in sectors that pose significant environmental, social and human rights risks. We believe that progress on these commitments will make a difference in ensuring that FI clients implement their environmental and social management systems at the subproject level and that IFC resources do not contribute to environmental damage and human rights abuses. This remains our shared objective and we look forward to working with you to that end.

We also welcome your commitment to reducing IFC support for FI activity that presents significant social or environmental risk by being more selective and targeted in IFC's investments, scaling back equity and general purpose debt investments in significant and high-risk FIs, and demonstrating that FI investments are used for their intended purpose. In order to achieve the latter objective, we would emphasize that targeted FI investments should include a clear stipulation of how the funds must be used in the legal agreement; require separation of the funds in a separate account at the FI; and reporting on the use of funds, subject to an external audit. IFC should disclose information on the use of targeted FI investments to provide greater public confidence that World Bank Group funds are being used for their intended purpose, and that they are furthering genuine sustainable development objectives. We believe these actions, when implemented, will help IFC to better achieve and measure development outcomes on the ground.

As you alluded to in your blog, we believe that effective implementation of these commitments will depend on increased transparency to a high degree. Therefore, the establishment of a financial sector working group to discuss and explore "a voluntary disclosure framework for subprojects and projects" is a welcome initiative. However, we still believe that such disclosure should be a mandatory requirement for accessing IFC funds. Without a significant improvement in the disclosure of environmental and social information on FI investments, neither the IFC nor stakeholders have any way to assess whether financial intermediaries are living up to their environmental and social obligations.

To improve transparency, the IFC should disclose environmental and social appraisal, monitoring and due diligence reports on FI clients. Most importantly, the IFC should require its FI clients to disclose the name, location and sector of their high-risk subprojects and corresponding draft environmental and social assessments in a timely manner for public comment. The disclosure of such information regarding potential environmental and social impacts on project-affected communities, to enable their meaningful participation in project design, assessment, monitoring and evaluation, cannot be construed as a “confidential” business matter. We are ready to work with you and your clients to find ways to overcome sector confidentiality issues and identify solutions for enabling disclosure in different jurisdictions.

While there was much to applaud in your blog, we were disappointed that it did not mention a specific commitment to ensure effective remedies for communities that have been harmed. When FI clients fail to implement their environmental and social obligations and people’s basic rights are violated, the IFC should use its leverage and all the tools at its disposal to support accountability and redress. That means fundamentally transforming IFC’s relationship with the Compliance Advisor Ombudsman (CAO). The defensive and unconstructive positions that the IFC has taken in recent years in relation to CAO processes needs to change if IFC is to be a true leader in the field of sustainable development. As the IFC increases its investments in riskier environments such as fragile and conflict affected states, where institutions are weak or non-existent, the CAO will become an ever more important recourse mechanism when things go wrong, and, in some cases, perhaps the only one available to communities. The IFC should fully support the mandate of the CAO by respecting its independence, ensuring that it has adequate resources, and responding to CAO dispute resolution processes and audits with a primary focus on repairing harms.

We hope that you will also recognize the vital role played by CAO in aiding the IFC to identify and learn from compliance failures, with a view to ensuring such mistakes do not happen again, and therefore continually improving IFC's performance.

As mentioned in our previous letter, we know that your leadership and engagement in these important issues are essential. We hope that, in the positive spirit of your blog, you will agree to meet with us in the near future to discuss how we can monitor and build on your commitments to ensure that communities and the environment are protected from harm. We strongly believe that close and ongoing engagement with civil society organizations that share your desire to bring about a more responsible banking system is imperative for making progress in the positive areas you outline in your blog.

We look forward to hearing from you.

Sincerely,

Bank Information Center (BIC), International
Both ENDS, The Netherlands
Bretton Woods Project (BWP), UK
Center for International Environmental Law (CIEL), USA
Centre for Research on Multinational Corporations (SOMO),The Netherlands
CNCD-11.11.11, Belgium
European Network on Debt and Development (Eurodad), Belgium
Forest People’s Programme, UK

Friends of the Earth, USA
Gender Action, USA
Human Rights Council, Ethiopia
Human Rights Watch, International
Inclusive Development International (IDI), USA
International Accountability Project, International
International Rivers, USA
Maryknoll Office for Global Concerns, USA
Oxfam, International
Sierra Club, USA
Ulu Foundation, USA
Urgewald, Germany