

'Ulu Foundation – 11.11.11- The Coalition of the Flemish North-South movement – Accountability Counsel – ActionAid International – African Forum and Network on Debt and Development – Alianza Social Continental – Alyansa Tigil Mina – Article 19 – Asociacion Ambiente y Sociedad – Bank Information Center – BankTrack – Both ENDS – Bretton Woods Project – CEE Bankwatch Network – Center for International Environmental Law – Centro de los Derechos del Campesino – Christian Aid – CNC-11.11.11 – Comisión Nacional de Enlace – Crude Accountability – Derecho Ambiente Y Recursos Naturales – Diakonia – Equitable Cambodia – Eurodad – Forum for Indigenous Perspectives & Action – Friends of the Earth Japan – Friends of the Earth US – Fundacion Jubileo – FUNDAR – Global Responsibility – Global Witness – Inclusive Development International – Inspiration – International Rivers – Japan Center for a Sustainable Environment and Society – Jubilee 2000 Ecuador Network – KOO – KOSID – La Coordinadora Civil de Nicaragua – Latin American Network on Debt, Development, and Rights – Movimiento Tzuk Kim-pop – Nature Code – Oxfam America – Pacific Environment – Plataforma 2015 y Más – Programme for Social Action – Re:Common – Red Nicaraguense de Comercio Comunitario – Sustainable Energy & Economy Network – The Social Justice Committee of Montreal – Third World Network – urgewald – World Development Movement

Dr Jim Yong Kim, President
World Bank
1818 H St NW
Washington, DC 20433
United States

22 November 2013

RE: IFC investment in the financial sector

Dear Dr Kim:

We are writing to respond to your 18 April reply to our March letter about the audit by the Compliance Advisor/Ombudsman (CAO) on the International Finance Corporation's lending to the financial sector. We have now had a chance to review the IFC's proposed action plan, written to respond to the concerns of the board Committee on Development Effectiveness. We believe the IFC's response to our original letter and the board's concerns are inadequate and we are writing to you to **urge you to insist the IFC do more to address the CAO audit's findings**. In light of your new World Bank Group Strategy, which you have emphasised has the private sector as a central focus, we believe **it is time for you to commit to revise the IFC's strategy for investment in financial markets**.

It is worth reinforcing that the CAO audit finds that the IFC has no way to determine that financial intermediary investments, which are increasing in volume, are causing no harm to the environment or local communities. This is regardless of the IFC requirement of its financial sector clients to maintain an environmental and social management system (ESMS). What matters are results – positive development outcomes and prevention of harm to communities and the environment – but the IFC does not measure these results for financial intermediary sub-clients, which now account for nearly 20 per cent of the World Bank Group's annual commitments, representing great potential harm. On the contrary, the IFC staff stated that the IFC is not accountable for FI clients' investments in sub-projects. This is not acceptable to us, nor should it be to the World Bank Group, especially under your new goal-oriented strategy, which sees a greater role for private sector engagement.

There has been a welcome dialogue between the IFC and civil society organisations, and we recognise the IFC has taken some steps towards improved transparency and risk management, for example requiring private equity funds to publish details of all investments, and committing to additional capacity-building on risk identification and management for intermediaries. However, **the IFC action plan fails to address our main concerns** about the entire premise on which development outcome assessment and social and environmental safeguards are applied to the IFC's large investments in the financial sector.¹

We have been told by the IFC that staff would not be able to do their job if they had to track every client. But IFC staff's responsibility is to ensure that IFC investments deliver real – not theoretical – development outcomes, while guaranteeing that no harm is done to communities and the environment. We fundamentally reject a model in which, *by design*, the IFC cannot guarantee that its investments contribute to poverty reduction nor avoid harm. If IFC does not have the capacity to provide adequate transparency and oversight for the current investments it makes in the financial market sector, we recommend that the IFC does fewer, but does them better.

¹ These concerns were repeatedly expressed to the IFC, including in meetings in Washington in April and October, in India in May and in London/Brussels in July.

The plan also fails to accept measures we have suggested to bolster the IFC's ability to spot, avoid and manage harm to communities and the environment. A number of our organisations wrote to CODE on 12 August before their meeting on the IFC Action Plan, to suggest changes, however the plan still falls short:

1. A continued inability under the IFC's supervision systems to assess the development, environmental and social outcomes of financial sector lending;
2. A lack of third-party verification which could help ensure communities do not bear the cost if standards are inadequately implemented;
3. Problems with transparency around all sub-client investments² which in part stems from incorrect risk categorisation of projects and in part from inadequate consideration of language and information access constraints of affected people, precluding access to remedy for harm done;
4. Failure to improve contractual arrangements to ensure standards are met and to make intermediaries ineligible for further finance should they have failed to meet standards; and
5. Inadequate sequencing of capacity building and investment decisions for clients with low capacity to handle social and environmental risks.

However, we recognise that even our proposed measures may be insufficient to address the problems at hand. To remedy this situation we again urge you to **make a commitment to develop a new strategy for investments in the financial sector**, fundamentally rethinking the nature, purpose, modalities and limits of these investments. **In the development of a new strategy for investment in the financial sector, the IFC should formulate a process for independent input, participatory consultation with affected communities, and broader stakeholder engagement.**

While we welcome the opportunity to continue to consult with IFC staff on these issues, we believe the World Bank Group now needs to take a step back and rethink its strategy for IFC lending to the financial sector. Given the increased priority you are placing on the private sector in implementing the goals of the WBG Corporate Strategy, it is essential that these investments do not undermine your goals of eradicating extreme poverty and promoting shared prosperity, as well as cohere with national development goals and country priorities for financial development. We will be sending a more detailed briefing to the IFC about our concerns; however, we do not find the IFC's approach sufficiently ambitious and want to discuss our ideas with you. We look forward to a positive response from you and to the opportunity to work with you to reform the IFC's support for the financial sector in ways that will bring better outcomes for people living in poverty.

Yours sincerely,

Jesse Griffiths, Director, Eurodad, Belgium

Vijayan MJ, Director, Programme for Social Action, India

Peter Chowla, Coordinator, Bretton Woods Project, United Kingdom

Patrick Alley, Founding Director, Global Witness, United Kingdom

Ray Offenheiser, President, Oxfam America, on behalf of Oxfam International

Chad Dobson, Executive Director, Bank Information Center, United States

Carroll Muffett, CEO, Center for International Environmental Law, United States

Stephanie Fried, Executive Director, 'Ulu Foundation, United States

² Honduran organisations and their international partners have complained about the recent lack of transparency around IFC client involvement in financing the controversial Agua Zarca hydropower project, which has been rejected by indigenous peoples, whose protests have been violently repressed by security forces resulting in the death of a protestor. Transparency was also at issue in the CAO case against the India Infrastructure Fund brought by Odisha Chas Parivesh Sureksha Parivesh.

Annelies Vilim, Director, Global Responsibility - Platform for Development and Humanitarian Aid, Austria
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Doug Norlen, Policy Director, Pacific Environment, United States

Janet Redman, Co-director, Sustainable Energy & Economy Network, United States

Collins Magalasi, Executive Director, African Forum and Network on Debt and Development, Zimbabwe

Cc: Jin-Yong Cai, executive vice president IFC
IFC Board of Directors and alternates