World Bank Board Denies Recourse to Millions of Victims of Predatory Lending, Sets a Dangerous Accountability Precedent

Last week, the World Bank Group's Board of Directors overruled its own independent accountability mechanism - the Compliance Advisor Ombudsman (CAO) - and allowed the International Finance Corporation (IFC), the institution's private sector arm, to avoid accountability for the microfinance debt crisis it has contributed to in Cambodia. In response, CAO Director General Janine Ferretti has resigned. The Board must answer for its actions and explain how it will uphold the integrity of its accountability system going forward.

A CAO investigation found that IFC violated its own Sustainability Framework's requirements in its investments in six banks providing microfinance in Cambodia, and this noncompliance contributed to predatory lending practices that have led to the loss of land and livelihoods, hunger, increased suicide risks, and threats of retaliation against the very communities that are supposed to benefit from microfinance programs.

The harms caused by the microfinance industry in Cambodia are well documented and were confirmed by CAO. However, in an unprecedented fashion, the World Bank Group Board rejected CAO's noncompliance findings and recommendations to address the harm from its investments. In direct contradiction to the CAO investigation, and without any evidence, the Board published a statement on June 24th declaring that, "there has been no policy noncompliance under IFC's Policy on Environmental and Social Sustainability." Although required by the Board-approved CAO policy, IFC refused to develop and submit to the Board a management action plan with time-bound commitments to address the noncompliance. Instead, it has promised piecemeal actions in a "Special Management Action Plan" that do not address most of CAO's recommendations. Furthermore, according to unofficial reports, IFC has suggested that victims of predatory micro-finance lending or other consumers harmed by IFC-financed products will no longer have access to recourse through CAO. This is completely unacceptable.

It is not the role of the Board to determine whether or not IFC Management has acted in compliance with its Sustainability Framework. CAO was established to serve as an independent arbiter and hold the institution accountable to the policy commitments made by IFC's shareholders. If the Board can reject CAO's policy on a case-by-case basis, then it means that CAO is no longer a reliable and predictable mechanism and can no longer credibly shield IFC from legal liability.

This decision sets a dangerous precedent for accountability at the World Bank Group. It comes at a time when the Board has already shaken the public's confidence in its accountability architecture by approving a hasty merger of the institution's public and private sector accountability mechanisms. At this point, the only conclusion we can reach is that the Board prioritizes its investment portfolio over environmental and social protections.

We call upon the Board to:

1) Meet with us to explain how they reached this decision.
2) Publish the voting record of each member of the Board.
3) Require IFC to accept CAO's findings and develop an effective Management Action Plan in consultation with the complainants.
4) Disclose how any other current and future cases to CAO alleging environmental and social harms stemming from its microfinance portfolio will be handled fairly and predictably.
5) Explain who will be leading CAO following Janine Ferretti's departure and before the new mechanism is established, and how this leadership vacuum will not further undermine accountability on other CAO cases.
6) Commit to a transparent and inclusive leadership selection process, which includes civil society participation on the selection committee, to ensure the independence and integrity of the new World Bank Group accountability mechanism. Despite the Board's assertion that a transparent recruitment process has been underway since June 9th, the job posting, terms of reference, and recruitment process have not been publicly disclosed.
7) Reaffirm its commitment to strong due diligence and supervision to ensure that the costs of economic development do not fall disproportionately on poor or vulnerable people.
8) Reaffirm its commitment to strong accountability and ensure that the institution's new independent accountability mechanism is equipped to do its work effectively.

Signatories

Organizations

1. AbibiNsroma Foundation – Ghana
2. Accountability Counsel – International
3. Alternative Law Collective – Pakistan
4. Arab Watch Coalition – United States
5. Asia Indigenous Peoples Network on Extractive Industries and Energy (AIPNEE) – Philippines
6. ASOCIACIÓN AMBIENTE Y SOCIEDAD – Colombia
7. Asociación unión de talleres 11 de septiembre – Bolivia
8. Association for Farmers Rights Defense, AFRD – Georgia
9. Bank Climate Advocates – United States
10. Bank Information Center – United States
11. BankTrack – The Netherlands
12. CEE Bankwatch Network - Czech Republic
13. Center for Economic and Social Rights (CESR) – Global
14. Centre for Human Rights and Development – Mongolia
15. Cohesión Comunitaria e Innovación Social – Mexico
16. Colectivo Voces Diversas – El Salvador

17. Community Empowerment and Social Justice Network (CEMSOJ) – Nepal
18. Deep Sea Mining Campaign – United Kingdom
19. Equitable Cambodia – Cambodia
20. Fundación Acue – Chile
21. Fundación CAUCE: Cultura Ambiental - Causa Ecologista – Argentina
22. Fundación Libera contra la Trata de Personas y la Esclavitud en Todas sus Formas – Chile
23. Fundeps – Argentina
24. Germanwatch – Germany
25. HRM “Bir Duino -Kyrgyzstan” – Kyrgyzstan
26. Inclusive Development International – United States
27. Indigenous Peoples Alliance Of the archipelagos Chapter Sumbawa (AMAN SUMBAWA) – Indonesia
28. Indigenous Peoples Rights International-IPRI – Philippines/Global
29. Inisiasi Masyarakat Adat (IMA) – Indonesia
30. International Accountability Project – Global
31. Jamaa Resource Initiatives – Kenya
32. Just Finance International – The Netherlands
33. Just Ground – United States
34. Kapaeeng Foundation – Bangladesh
35. KTNC Watch – Republic of Korea
36. Liberia Artisanal Fishermen Association LAFA – Liberia
37. Manushya Foundation – Thailand
38. MenaFem Movement for Economic, Development And Ecological Justice - SWANA/Morocco
39. MiningWatch Canada – Canada
40. Nash Vek PF – Kyrgyzstan
41. Oil Workers’ Rights Protection Organization Public Union – Azerbaijan
42. Oyu Tolgoi Watch – Mongolia
43. Peace Point Development Foundation -PPDF – Nigeria
44. People Ecology Network – India
45. Philippine Movement for Climate Justice – Philippines
46. Recourse – International
47. Rivers & Rights – Southeast Asia (Regional)
48. Rivers without Boundaries – International
49. Rivers without Boundaries Coalition – Mongolia
50. Society For Women Rights & Development (SWoRD) – Pakistan
51. Sustentarse – Chile
52. The William Gomes Podcast – United Kingdom
53. Trend Asia – Indonesia
54. Uganda Consortium on Corporate Accountability – Uganda
55. Urgewald – Germany
56. WEED - World Economy, Ecology & Development – Germany
57. Wemos – The Netherlands

58. Witness Radio – Uganda
59. Yemeni Observatory for Human Rights – Yemen
60. Uzbek Forum for Human Rights – Uzbekistan/Germany

Individuals

61. Dr. Guljakhon Amanova – Uzbekistan
62. Ms. Sophia Cramer – Independent Researcher and Policy Advisor
63. Ms. Fiona Faye, University of Kassel, Afrique-Europe-Interact
64. Prof. Arntraud Hartmann, SAIS Europe Johns Hopkins University
65. Prof. David Hunter, Peregrine Environmental Consulting, LLC
66. Prof. Aram Ziai, University of Kassel and Global Partnership Network