

***Via Electronic Mail***

Mr. Philippe Le Houérou  
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 Houérou

Thank you for your letter of November 4th, addressing the significant concerns raised by Inclusive Development International (IDI) and a number of national and international CSOs regarding the IFC's financial intermediary portfolio and its social, environmental and human rights impacts.

We appreciate your taking time to respond and to consider the issues we raised regarding the IFC's exposure to coal mines and power plants via its intermediary investments. It is welcome to hear that under your leadership, the IFC is undertaking a review of its clients' exposure to coal projects with a view to shifting their financing towards renewable energy. We also welcome your commitment to continually improving the IFC's approach to environmental and social risk management with FIs. We particularly noted your welcoming continuous feedback from civil society on these issues.

As your second year as Executive Vice President and CEO of IFC begins, we very much hope that you will agree to meet with us during the upcoming Spring Meetings in Washington, DC. Twice now we have requested a meeting with you to discuss the urgent and disturbing findings of our research, and the steps that we believe the IFC needs to take to address them.

Attached herewith are the second and third instalments of the *Outsourcing Development* investigation, which has been tracking high-risk FI sub-investments around the world to see how they impact local communities. While this investigation has only scratched the surface of the FI portfolio, IDI has now identified more than 130 projects and companies funded by more than two dozen IFC intermediaries in 24 countries that are causing or are likely to cause serious environmental harms and human rights violations.

The Outsourcing Development investigation findings substantiate the CAO's disturbing conclusion, in its third monitoring report on the FI portfolio, that the IFC "does not, in general, have a basis to assess FI clients' compliance with its E&S requirements." As the CAO states, this is highly problematic in relation to FI clients that are supporting high-risk projects, and "where IFC does not have assurance that the development of a client's ESMS is leading to implementation of the Performance Standards at the sub-project level." The cases we are finding demonstrate that FI environmental and social management systems are not in fact leading to the implementation of the IFC's standards in practice.

While we appreciate the CAO's finding that there has been improvement in the quality and intensity of the IFC's review and supervision of FI investments, these improvements are not systematic and across IFC's FI portfolio. On the contrary, we note that CAO also found significant levels of non-compliance by the IFC across all stages of the investment cycle in the sample of recent FI investments that it examined. Unfortunately,

rather than taking the critical findings of the IFC's independent compliance watchdog on board and redoubling its efforts to improve performance, the IFC chose instead to disparage the CAO's methodology, policy analysis and conclusions in its response.<sup>1</sup>

There is a growing international movement paying attention to this issue and calling on the IFC to live up to the promises of its Sustainability Framework and to its aspirations of being the market leader in responsible private-sector investment.

Your leadership and engagement in this critical issue is of great importance. We would appreciate an opportunity to hear and discuss in-person how you plan to steer the IFC in a positive direction and close the implementation gap in FI lending to ensure communities and the environment are protected from harm.

Sincerely,



David Pred  
Managing Director, Inclusive Development International



Jeff Hall  
Executive Director, Bank Information Center

On behalf of:

Accountability Counsel  
Bank Information Center  
Both ENDS  
Bretton Woods Project  
Center for International Environmental Law  
Centre national de coopération au développement, CNCDC-11.11.11  
Forest Peoples Programme  
Gender Action  
Human Rights Council - Ethiopia  
Inclusive Development International  
International Accountability Project  
NGO Forum on ADB  
Oxfam International  
Rainforest Action Network  
Sierra Club  
Urgewald

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<sup>1</sup> <http://www.cao-ombudsman.org/newsroom/documents/documents/IFCResponsetoCAOThirdFIMonitoringMarch2017.pdf>