

When Accountability Becomes Optional

The IFC Board, the CAO, and the Precedent Set in Cambodia

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THE OPENING QUESTION

No documented precedent has been identified, in the public record of MDB independent accountability mechanisms, for an institution’s Board of Directors issuing a formal determination that overturns a positive compliance finding by its own watchdog. On June 23, 2026, the IFC Board determined that “no policy noncompliance” had occurred — reversing a 142-page investigation by the Compliance Advisor Ombudsman that found the opposite. One day later, the CAO’s Director General resigned.

If the finding is wrong, that is one case. If the mechanism that produces findings can be reversed by the institution it oversees, that is a constitutional question.

On June 23, 2026, the Board of Directors of the International Finance Corporation voted to reject the findings of its own independent watchdog in one of the most consequential accountability decisions in IFC’s history. One day later, the head of that watchdog resigned.

The watchdog is the Compliance Advisor Ombudsman. The case involved IFC-backed microfinance institutions in Cambodia that had, over many years and with documented IFC knowledge, lent to some of the world’s most vulnerable borrowers under conditions that led to forced land sales, children pulled from school into the workforce, and apparent debt-driven suicides. The CAO spent four years investigating, published a 142-page report finding IFC had violated its own Sustainability Framework, and recommended tailored remedies for each of the 18 complainants. The Board determined that “no policy noncompliance” had occurred and approved a plan pointing complainants toward Cambodia’s national consumer complaint mechanisms — the same mechanisms that had failed to protect them in the first place.

Janine Ferretti, the CAO’s Director General, announced her resignation in a LinkedIn post on June 25. “In the wake of the Board’s decision, and after careful reflection, I have decided to step down as CAO Director General effective August 1, 2026,” she wrote.

This paper argues that what happened in Cambodia was not an aberration. It was the logical conclusion of a structural design that has been compromising the CAO’s independence since its creation — and that the Board’s decision raises a question that outlasts the immediate case: what is the constitutional purpose of an independent accountability mechanism that the institution it oversees can overrule?

I. The Cambodia Case: What the CAO Found

In February 2022, LICADHO and Equitable Cambodia filed a complaint on behalf of 18 borrowers from six IFC-backed microfinance institutions: ACLEDA, Amret, Prasac, Hattha Bank, LOLC, and Sathapana. IFC had financing in these institutions through 13 active projects.

Cambodia carries the highest level of microfinance debt per capita of any country in the world. The sector expanded rapidly on the basis of IFC investment and an “inclusive finance” narrative. What the CAO’s four-year investigation documented was the systematic pattern of harm this expansion produced: forced land sales, families going hungry, children pulled from school into the workforce, and apparent debt-driven suicides — especially severe in Indigenous communities where many borrowers could not read Khmer loan documents.

The CAO found that IFC: failed to conduct environmental and social due diligence commensurate with known risks; despite documented evidence of over-indebtedness, considered impacts on microfinance borrowers to be outside the scope of its E&S policies; did not identify borrowers as vulnerable groups under its own Sustainability Policy; and did not require clients to apply relevant Performance Standards or assess impacts on Indigenous Peoples’ communal land.

The investigation was submitted to the IFC Board in October 2025. By June 23, 2026 — eight months later — the Board sided with IFC Management. In IFC’s own words, it “disagrees that the IFC Sustainability Framework applies to the harms presented in CAO’s Investigation Report.” The Board approved a Management Action Plan in which IFC will hire a local facilitator and refer borrowers to the Financial Consumer Protection Center in Phnom Penh.

WHAT CAMBODIAN CIVIL SOCIETY SAID

“There is no doubt that by ignoring the CAO’s findings and recommendations, the Board is denying remedies to complainants and disregarding years of suffering caused by IFC’s investment in Cambodia’s microfinance sector.” — Eang Vuthy, Executive Director, Equitable Cambodia

“This decision reveals a morally bankrupt approach to investing and a shocking disregard for the role of an independent accountability mechanism.” — Naly Pilorge, Outreach Director, LICADHO

One of the 18 complainants died while the investigation was underway.

II. This Is Not the First Time

In 2023, the CAO investigated IFC’s investment in Bridge International Academies — a chain of for-profit private schools in Kenya where credible allegations of child sexual abuse and labour rights violations were documented. What followed was not a Board override — it was something

arguably more corrosive: IFC’s general counsel negotiated a non-disclosure agreement with Bridge to prevent harmful information from reaching the CAO as the company raised a funding round. When the investigation began, the World Bank Group President intervened directly — replacing the CAO leader and placing the lead compliance investigator on administrative leave before the investigation report could be published.

Natalie Bridgeman Fields, founder of Accountability Counsel and one of the architects of the modern IAM field, documented this directly in 2023: “The World Bank Group’s President further undermined the CAO’s independence and accountability efforts by swapping out the leader of the CAO for one who would improperly place the lead CAO compliance investigator of Bridge on leave before the investigation report into Bridge could come out.”

In 2026, the Board intervened directly. In 2023 it was the President. The mechanism for overriding the watchdog has moved up the governance chain. What this means for the new merged IAM — which consolidated reporting under a single Director General — is addressed in Section VI.

The institutional chain of command across both episodes runs through IFC Management and the President’s office. Makhtar Diop has been IFC’s Managing Director since March 2021. As the head of IFC Management, the Management Report submitted to the Board in June 2026 — which rejected the CAO’s findings and declined to submit a Management Action Plan — was produced under his leadership. The jurisdictional position at the centre of that rejection — that microfinance borrowers do not qualify as “affected people” under IFC’s Sustainability Framework — is an IFC Management argument that Diop owns. Ajay Banga has been World Bank Group President since June 2023, the same month the initial attempt to block the Cambodia investigation was made using a policy amendment that had, to that point, never been used. Neither man is named in the public record as having personally directed the 2023 or 2026 decisions; institutional accountability in multilateral banks rarely works that way. What the record shows is that the attempt to prevent the investigation and the subsequent rejection of its findings were produced and endorsed within IFC Management and the President’s office, under their authority.

III. The Structural Reason: Designed to Report to the President, Not the Board

The Inspection Panel, created in 1993, reports to the Board. It was a difficult negotiation, forced on the World Bank by US Congressional pressure during an IDA replenishment round. The Panel’s limited independence was the minimum the Board was willing to concede.

When the CAO was subsequently created for the IFC and MIGA — partly in response to communities displaced by an IFC-backed dam on Chile’s Biobío River — the precedent of Board-reporting independence was explicitly not extended. The CAO was made to report to the President of the World Bank Group. Bridgeman Fields is direct about why: the Bank’s embarrassment at

strong early compliance findings led to backlash, and “the President of the bank at the time made the CAO report to him, forestalling a more independent option.”

This is not a procedural footnote. It is the structural root of what happened on June 23, 2026. If the CAO reported to the Board, a Board override of the CAO’s findings would be an act of institutional self-contradiction — the Board overruling an office accountable to the Board. When the CAO reports to the President, the Board can receive the CAO’s findings as one input among many and reject them without the same institutional logic being violated.

WHY THE REPORTING LINE IS THE EXPLANATION, NOT JUST THE CONTEXT

The CAO reports to the President administratively — budget, hiring, leadership. But its compliance investigation reports go to the Board, which must decide what to do with them. So the Board had to act. IFC Management refused to submit a Management Action Plan as required and instead submitted a Management Report rejecting the findings outright. The Board then faced a binary: endorse the CAO’s findings, or endorse Management’s rejection. It chose the latter.

Because the CAO reports to the President rather than the Board, the Board does not regard the CAO as its mechanism. When the Inspection Panel — which does report to the Board — produces a finding, the Board overruling it means overruling itself: a visible act of institutional self-contradiction, with a high political cost. When the CAO reports to the President and the Board overrules it, the Board is overruling an arm of Management. Institutionally, that is a far easier thing to do.

This is why 2023 and 2026 required different tools. In 2023, before the investigation began, Management used the President’s administrative authority over the CAO to trigger a Board review of the decision to investigate — a “never-before-used” policy amendment. That attempt failed; the investigation proceeded. By 2026 the investigation was complete, administrative authority was useless, and the only remaining tool was the Board endorsing Management’s refusal to accept the findings.

The reporting line to the President is what made the Board comfortable rejecting the findings. Board-reporting independence is not a technical preference — it is the difference between a Board that owns its watchdog’s conclusions and a Board that can treat them as someone else’s problem.

The comparison across mechanisms — and the new IAM — tells the structural story plainly:

ISSUE	INSPECTION PANEL	CAO (IFC)	NEW IAM
Reporting line	Board	President	?
Board can formally reject compliance findings?	No documented case	Yes – Cambodia, June 2026	Unknown
Binding remedy power	No	No	Proposed – not yet implemented
Financial intermediary jurisdiction	N/A (sovereign lending)	Disputed – Cambodia precedent	Unknown
Compliance reviews with documented harm mitigation	Occasional	Zero (per Accountability Counsel data)	To be established
Head appointment with civil-society participation?	Yes	Yes (policy)	Not yet – no public process announced

Sources: individual IAM mandate documents; Bridgeman Fields (2023); Bissell (2023); IFC Board Statement (June 24, 2026); Devex (June 30, 2026).

IV. The Accountability Record: What the Data Show

The CAO has three functions: ombudsman (dispute resolution), advisory, and compliance review. The data on what each function has achieved for communities is the sharpest available summary of the mechanism’s actual performance.



Number of CAO compliance review cases with documented harm mitigation for affected communities (source: Accountability Counsel data, cited by Bissell, 2023).

Richard Bissell, former Chair of the World Bank Inspection Panel, documents the corollary: the CAO has achieved measurable harm mitigation in ten of its dispute resolution (problem-solving) cases. In compliance review – the function that investigates whether IFC violated its own policies – it has achieved none.

This is not evidence that the CAO has failed to do its job. It is evidence that the job, as structured, does not enable compliance findings to translate into relief for affected communities. Cambodia is not the CAO failing – it is the CAO performing exactly as the structure allows. The Board rejected the finding; the structure permitted it; the result was predictable from the design.

The IFC itself saw this coming. In 2023, before Cambodia, IFC’s proposed approach to remedial action stated that IFC would accept responsibility only “in exceptional circumstances,” and that in general the obligation would fall on IFC clients or sovereign guarantors. As Bissell documents, “a storm of criticism greeted” this position – including from the UN Human Rights Office, which found it neither adopted the specific reforms proposed by the 2020 External Review of IFC/MIGA accountability nor reflected the spirit of those recommendations.

V. What the Board Decision Actually Says

The Board’s stated reason for overriding the CAO’s finding deserves careful attention, because it is not a procedural objection. The Board endorsed IFC Management’s substantive position: that microfinance borrowers do not qualify as “affected people” under IFC’s Environmental and Social Sustainability Policy, and that lending practices and consumer protection issues fall outside the scope of IFC’s E&S policies.

This is a jurisdictional claim of sweeping scope. IFC’s entire financial intermediary portfolio is built on the model of lending to institutions that on-lend to end borrowers. IFC does not lend directly to the Cambodian farmer. It lends to ACLEDA, which lends to the farmer. Under the logic the Board has now endorsed, the communities reached through IFC’s entire financial intermediary portfolio are outside the scope of IFC’s E&S accountability — because they are borrowers of IFC’s clients, not IFC’s direct clients.

If this precedent holds, it is not merely a Cambodia story. It is the jurisdictional exclusion of IFC’s largest and most impactful lending channel from the accountability framework that exists to protect communities.

THE MDB-WIDE QUESTION

Has any other MDB Board ever issued a formal determination overturning a positive compliance finding by its own independent accountability mechanism? No documented case exists in the public record across the ADB, AfDB, IDB, or EBRD. If Cambodia stands as a precedent, it is an MDB governance precedent, not only an IFC story.

VI. The Merger and What Comes Next

The Cambodia decision and Ferretti’s resignation occurred in the same month the Board approved merging the Inspection Panel, the CAO, and IFC/MIGA’s grievance functions into a single World Bank Group Integrated Accountability Mechanism — committing to “no regression” in accountability standards.

Civil society organisations have already noted the contradiction: no public vacancy notice or terms of reference for the new IAM head have been published; civil society has been excluded from the selection process despite the Board’s stated commitment to the current policy providing for civil society participation in selecting the Director General; and the Cambodia decision has created precisely the precedent a “no regression” commitment was supposed to prevent.

The specific structural danger of the new architecture is this: the CAO in its current form, however limited, maintains separate leadership directly accountable for its independence. Under the merged IAM, a single Vice-President/Director-General sits across all three functions. The point at which a finding can be managed before it reaches the Board is now consolidated rather than

distributed. Cambodia demonstrates exactly what that consolidation risks: one escalation point, one decision, and four years of independent investigation end with a referral to a national consumer complaints office.

VII. Three Decisions the Board Could Make Tomorrow

None of these require new articles of agreement. Each requires a Board decision — from the same body that made the Cambodia decision.

1. Board-Reporting Independence for the New IAM

The Inspection Panel reports to the Board. The CAO reported to the President. The new IAM should report to the Board, with an explicit mandate provision that the Board may not override compliance findings on substantive grounds. The Cambodia decision — an eight-month Board review overturning a four-year independent investigation — should not be architecturally possible under the new IAM.

2. Resolve the Financial Intermediary Jurisdiction Before the Mechanism Opens

IFC's financial intermediary portfolio accounts for a significant share of IFC commitments. The Board has now ruled that communities reached through this portfolio are outside the scope of IFC's E&S accountability. If the new IAM inherits this jurisdictional position, it cannot provide accountability for a large fraction of IFC's actual development impact. The Cambodia precedent must be explicitly reversed before the new mechanism opens, or it becomes its founding limitation.

3. A Remedy Framework That Does Not Depend on IFC's Agreement

The CAO's own 2023 Remedy Gap advisory note documented zero compliance cases where measurable harm mitigation was achieved. The recommended remedy in Cambodia was rejected. The new IAM needs a remedy framework that does not require IFC Management to agree it bears responsibility — because Management has now demonstrated, at Board level, that it will argue it does not. Initial remedy funds should be set aside at project approval, and remedy should follow compliance findings independently of the borrower's willingness to acknowledge non-compliance.

VIII. From Cambodia to the IMF

The events of June 2026 illuminate a spectrum. At one end, the World Bank Group has accountability mechanisms — however imperfect, however structurally compromised. Cambodia demonstrates their limits in the starkest possible way: the Board can override them, the DG can resign, and the 18 complainants are referred to the mechanism that failed them before the complaint was filed. Imperfect accountability is not the same as no accountability. But Cambodia shows how close the distance can be.

At the other end of the spectrum sits the IMF. The Fund has disbursed at scale across Africa, Asia, Latin America, and Europe for eighty years. It has attached conditions to every programme it has supported — as this platform has documented, approximately 47 percent of MONA’s structural conditions relate to transparency and accountability in borrowing countries. It teaches fiscal governance to the governments it lends to. It has never created a mechanism that allows a person harmed by an IMF programme to file a complaint, trigger an investigation, or receive an independent finding.

The World Bank Group’s CAO has, across thirty years of compliance reviews, produced zero documented cases of harm mitigation. But it has a structure — a mandate, a staff, a process, a Director General who could resign in protest when the Board overruled her. The IMF has no Director General who could resign over a compliance finding, because it has no compliance mechanism that could produce one.

Cambodia is the worst recent outcome of a mechanism under structural pressure. The question it raises — whether independent accountability can survive inside an institution that controls its own oversight — is precisely the question that needs to be answered before the IMF builds nothing, and before the new WBG IAM builds the wrong thing.

THE CONSTITUTIONAL QUESTION

If an independent accountability mechanism can spend four years investigating a case, find non-compliance, recommend remedies, and have its conclusions formally rejected by the institution it is overseeing — what exactly is its constitutional purpose? The Cambodia case does not answer this question. It makes it impossible to avoid.

Conclusion

Janine Ferretti spent years leading an independent watchdog whose independence the institution it was watching did not accept. The 18 Cambodian complainants spent four years in a process whose conclusions the Board reversed in eight months. One complainant did not live to see the result.

The accountability mechanism that exists to prevent this pattern from continuing has just demonstrated — at the moment of its merger into a new and supposedly improved architecture — that it can be overruled whenever a finding is inconvenient enough. No other MDB Board has done this on the public record. The IFC Board has done it, and called the result “no regression.”

The three decisions in Section VII are the minimum required to ensure the new IAM does not inherit Cambodia as a precedent rather than a warning. The Board that made the Cambodia decision can make them. Whether it will is the accountability question that Cambodia has put before it — and that the new mechanism’s first five years will answer.

Sources

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