

**Subject: Financial Inclusion, Borrower-Related Risks and Impacts: Recommendations for the IFC Sustainability Framework Review**

To:

Justin Pooley, IFC Environment & Social Policy and Standards Manager

Maria Carolina Hoyos, IFC Stakeholder Engagement Officer

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Dear Justin Pooley, dear Maria Carolina Hoyos,

we, the undersigned researchers, are writing regarding the ongoing review of the IFC Sustainability Framework and would like to draw your attention to a set of recommendations concerning IFC investments in financial intermediaries engaged in MSME lending, housing finance, consumer finance, and digital finance.

Based on our combined research and fieldwork on microfinance, household finance, and indebtedness over many years, we recommend that risks and impacts affecting end-borrowers – including over-indebtedness and related human rights concerns – be more explicitly integrated, both conceptually and operationally, into the Sustainability Framework. This would include:

- IFC’s due diligence, risk categorization, supervision, and accountability processes for investments in financial intermediaries as defined in the Environmental and Social (E&S) Policy; and
- IFC FI clients’ responsibilities regarding E&S risk management under the Performance Standards.

The briefing notes below outline the rationale for these recommendations such as the developmental significance and scale of IFC investments in financial inclusion, growing evidence regarding over-indebtedness risks and related adverse social and human rights impacts; and conceptual and operational gaps in the current Sustainability Framework concerning borrower-related risks and impacts.

While we believe that microfinance borrowers are affected people and fall under the IFC Sustainability Framework, recent discussions demonstrate the value of making this point more explicit in the policy. The briefing notes therefore propose several possible adaptations to the Sustainability Framework, including with regard to risk assessment, FI risk categorization, stakeholder recognition, ESMS requirements, exclusion criteria, and the treatment of borrower-related risks under relevant Performance Standards.

We would very much welcome the opportunity to discuss these recommendations and related issues with you and members of the review team in more detail. In our view, the current review presents an important opportunity to strengthen the Framework’s alignment with IFC’s broader development commitments and its stated objective of ensuring that economic development does not disproportionately harm vulnerable populations.

We would be very glad to contribute constructively to the ongoing review process and would greatly appreciate the opportunity for a conversation with members of the drafting team in the coming weeks.

Thank you very much for your consideration and for the important work currently being undertaken in the Sustainability Framework review process.

With best regards,

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## **Briefing Notes: Financial Inclusion – Borrower-Related Risks and Impacts: Recommendations for the IFC Sustainability Framework Review**

### **1. IFC's Principles and the Important Role of Investments in Financial Inclusion**

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As IFC's Policy on Environmental and Social Sustainability states, IFC's mission is "to fight poverty with passion and professionalism for lasting results" (para. 8). IFC further emphasizes the importance of its

“intent do[ing] no harm to people and the environment,” “achiev[ing] positive development outcomes,” and ensuring that “the costs of economic development do not fall disproportionately on those who are poor or vulnerable” (para. 9).

In our view, these principles are directly relevant to financial intermediaries’ end-borrowers, particularly given the scale and developmental significance of IFC investments in MSME lending, housing finance, consumer finance and digital lending, as well as the E&S risks and impacts for borrowers linked to these investments.

In FY2025, IFC committed approximately USD 8.8 billion to the financial markets sector ([IFC 2025](#): 17). Based on our own calculations using IFC project approval data for 2025, around 78% of approved loan financing in this sector is intended to support MSME-lending, housing finance, consumer finance and digital lending. Through these investments, IFC-supported institutions reach millions of borrowers worldwide (*ibid.*) who could be affected by the related E&S risks and impacts.

## **2. Market Saturation, Competition and Resulting Risks and Impacts for End-Borrowers**

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Evidence from multiple countries suggests that rapid credit expansion, competition, and oversupply in saturated markets can contribute to household over-indebtedness, debt distress, and significant adverse social and human rights impacts for borrowers.

Well-known examples include Bosnia and Herzegovina, Nicaragua, Pakistan, Morocco, and India between 2008 and 2010 ([CGAP 2010](#); [Mader 2013](#); [Roodman 2012](#): 252ff.). More recent examples include Cambodia ([Human Rights Watch 2025](#)) and India ([Dvara Research 2026](#): 13–16), where evidence points to significant adverse social impacts linked to over-indebtedness, including high debt-to-income ratios, distress-driven coping strategies such as asset sales, reduced food consumption, health expenditure cuts and school withdrawals ([Equitable Cambodia/LICADHO 2023](#); [Guérin et al. 2024](#); [Dvara Research 2024](#): 66f.), as well as, in extreme cases, debt-related suicides ([The Guardian 2023](#); [Times of India 2025](#); [Global Ground Media 2018](#)). The crisis in Cambodia has also been the subject of a [complaint](#) regarding 13 IFC-supported projects filed with the Compliance Advisor Ombudsman in 2022, which alleged serious harm to microfinance borrowers in Cambodia through IFC clients. Studies further document severe repayment pressure ([Green et al. 2023](#): 796–798) and related land loss risks, including an estimated 167,400 cases of debt-driven land sales between 2017 and 2022 ([Bliss 2022](#): 75ff.). These adverse social impacts are strongly gendered, since women constitute a significant proportion of microfinance borrowers and are often particularly exposed to the risks of over-indebtedness and financial vulnerability ([Guérin et al. 2023](#)).

The Consultative Group to Assist the Poor (CGAP) has also highlighted the role of funders in past over-indebtedness crises, including through concentrated funding flows into particular countries and pressure for sustained portfolio growth (e.g., [CGAP 2010a](#): 3; [CGAP 2010b](#): 21f.).

More recently, rising household indebtedness has been identified by the UN Independent Expert on the Effects of Foreign Debt as a major and under-addressed concern with potentially significant human rights impacts ([UN 2020](#)). In 2024, [Sébastien Michiels et al.](#) presented further evidence, particularly for countries such as India and Brazil, and called for much stronger attention to household indebtedness

as an often overlooked policy topic. The [OECD Consumer Finance Risk Monitor 2026](#) emphasized high levels of debt as one of the most significant demand-side risks facing consumers (see Chapter 3.2).

These risks are particularly important given evidence that many low-income households — especially in contexts characterized by limited formal employment and weak public social protection systems — increasingly rely on borrowing for essential consumption and social reproduction. In Ecuador, for example, 43 percent of the adult population cannot cover daily expenses without incurring debt ([RFD et al. 2025](#): 74f.); in Mexico, the figure is 30.5 percent ([ENSAFI 2023](#): Cuadro 2.6). Roughly one third of the world’s population is now estimated to live under conditions of chronic indebtedness, through a range of debt sources, extending from microcredit to bank overdrafts and traditional consumer credit ([Natal/Guérin 2026](#)). As [Jonathan Morduch \(2021\)](#) argues, the narrative of small-enterprise finance may obscure these realities of low-income households.

In such contexts, market saturation, competitive dynamics, lending practices, loan pricing, and repayment conditions can have significant implications for borrower well-being and livelihoods, with broader implications for community health and social safety.

### **3. Conceptual Gap: Borrower-Related Risks in the Current Framework**

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The primacy of the do-no-harm principle, together with the importance of preventing over-indebtedness and ensuring consumer protection, is widely recognized within the financial inclusion sector. As the industry stakeholder network for responsible finance, Cerise+SPTF [states](#): “Client Protection is (...) a minimum moral obligation for every financial service provider and for the investors who support those institutions.” As a network member, IFC supports this principle and refers on its [website](#) to efforts aimed at preventing over-indebtedness and ensuring fair pricing. More broadly, the [OECD Guidelines for Multinational Enterprises](#) – the leading international standard on responsible business conduct – emphasize the responsibility of enterprises toward consumers. Enterprises are expected to “act in accordance with fair business, marketing and advertising practices and should take all reasonable steps to ensure the quality and reliability of the goods and services that they provide” (p. 44).

However, while borrower-related risks are already integrated into the provisions of IFC’s Sustainability Framework, making such integration more explicit would provide greater clarity. While IFC is required to assess the environmental and social risks associated with *business activities* (Sustainability Policy, para. 34), recent discussions with IFC Management suggests that end-borrowers – and the risks and potential harms that may arise from the lending relationship itself, such as over-indebtedness – are not currently understood as a distinct category of *consumers* under potentially *Affected Communities* within the framework (see further details below). As a result, accountability for risks and harms affecting microloan borrowers is not clearly ensured.

This conceptual gap is reflected in IFC’s Guidance Note on Financial Intermediaries. It identifies risks “typically” associated with the internal operations of financial intermediaries in relation to labor and working conditions and the safety of employees and visitors (p. 3). In relation to retail finance, housing loans, and student loans commonly directed at vulnerable low-income populations, the Guidance Note states that these activities “are not associated with any E&S risks” (FN 8, p. 2), a formulation that, in

our view, does not fully reflect the existing evidence base or the general principles of the Sustainability Framework.

The same pattern is visible in IFC project disclosure. Our review of IFC loans approved in 2025 for financial intermediaries engaged in MSME lending, housing finance, and consumer lending found that none of the reviewed projects identified over-indebtedness as a potential risk for end-borrowers. This also applied to projects approved in India despite the ongoing over-indebtedness crisis there. Although around 15 percent of the borrowers of IFC's client CreditAccess Grameen had loans from five or more lenders in January 2025 ([The Hindu Business Line 11.01.2025](#)), IFC classified a [USD 100 million loan](#) directed at “women microentrepreneurs for income generation purposes” as FI-3, perceiving “minimal or no adverse environmental or social impacts” (Sustainability Policy, para. 40). More generally, there appears to be a paradoxical tendency: The more vulnerable end-borrowers are (e.g. micro- and small enterprises or households taking consumption-related loans), the lower the applied risk category tends to be (FI-3 classification).

This limitation has also emerged in the context of a complaint before the Compliance Advisor Ombudsman concerning IFC investments in Cambodian financial intermediaries. Despite comprehensive evidence for over-indebtedness and subsequent harm to borrowers linked to the financial intermediaries in question ([CAO Compliance Appraisal Report - Financial Intermediaries-04](#), pp. 19 – 24; see also Human Rights Watch 2025), IFC Management initially argued that financial consumer protection falls outside the scope of IFC's E&S policies ([IFC Management Request for Board Review \(Withdrawn\)](#), p. 4).

Taken together, these issues suggest an important conceptual gap in the current Sustainability Framework. In our view, the existing approach does not yet fully reflect the broader objectives and principles of the Sustainability Framework itself and broader industry principles – particularly the commitment to “do no harm to people and the environment” – nor does it adequately account for the vulnerabilities of low-income borrowers and the scale of IFC investments in the financial inclusion sector.

## 4. Recommendations

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Against this background, we would respectfully recommend consideration of the following adaptations in the revised Sustainability Framework:

1. IFC's E&S risk assessment and supervision requirements for financial intermediaries should more explicitly include E&S risks and impacts arising from lending relationships themselves, including borrower over-indebtedness, debt distress, and related borrower protection concerns, in line with the established “do-no-harm”-principles and core human rights standards, including the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.
2. Borrowers of MSME lending operations, housing finance, consumer finance, and digital lending should be recognized explicitly within the framework as a distinct category of “consumers” under “Affected Communities”, particularly where lending portfolios target economically vulnerable populations.

3. As affected stakeholders, they should be consulted throughout the investment process in order to verify underlying project assumptions concerning them and to assess possible over-indebtedness risks, in line with international best practices (p. 13 in [\*Engaging All Affected Stakeholders: Guidance for Investors, Funders, and Organizations\*](#)).
4. The determination of FI risk categories should take into account borrower-related risks and their implications for borrower well-being and community-level health and safety.

In this regard, risk categorization should consider factors such as:

- market saturation levels,
- indebtedness levels of the target groups,
- product specific affordability of interest rates,
- cashflow-based lending practices,
- repayment conditions,
- restructuring and write-off policies,
- responsible incentive systems,
- and responsible growth strategies.

Relying on selected Client Protection Standards in this regard would be helpful, but not sufficient. They define the required processes, which are assessed based on the available documents, policies, and management procedures of microfinance organizations. The actual implementation of these processes is not considered in the assessment. Likewise, the actual effects of these practices on clients' lives and their indebtedness levels remain unconsidered. Moreover, key CPS indicators, such as the definitions of over-indebtedness and fair interest rates, do not operationalize risks in terms of client well-being and livelihood outcomes.

5. Financial institutions managing microloan portfolios should be required to establish Environmental and Social Management Systems (ESMS) specifically addressing over-indebtedness risk monitoring, prevention and mitigation.
6. IFC's exclusion list for microfinance should consider exclusions related to over-saturated markets, excessive loan costs, and inadequate restructuring and write-off policies associated with cases of distress.

In addition, we believe there may also be an important connection to IFC's obligations concerning community health and safety under Performance Standard 4. In contexts characterized by heavily saturated lending markets or widespread predatory lending practices enabled by weak regulation, retail financial products and lending practices themselves may generate significant social harms and therefore warrant treatment as higher-risk transactions under the Sustainability Framework.