



*The Independent Accountability Mechanism for IFC & MIGA*

OCTOBER 2025

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# Compliance Investigation Report

**Regarding IFC's Exposure to Financial Institutions in Cambodia  
(ACLEDA, Amret, Hattha Bank, LOLC, PRASAC, and Sathapana)**

IFC Projects #21856, #27827, #31467, #34748, #38609, #39167, #41294, #42480,  
#44211, #44231, #44742, #44882, #45535

October 10, 2025

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## About CAO

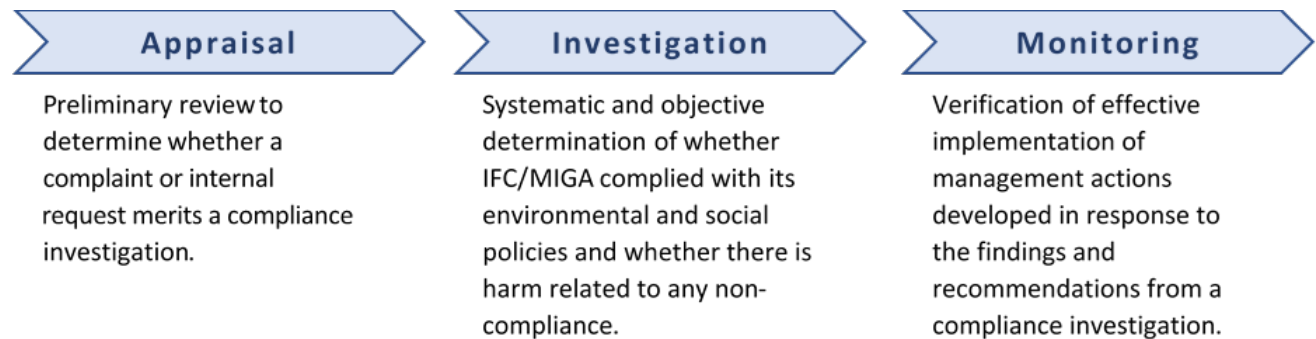
The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), members of the World Bank Group. We work to facilitate the resolution of complaints from people affected by IFC and MIGA projects in a fair, objective, and constructive manner, enhance environmental and social project outcomes, and foster public accountability and learning at IFC and MIGA.

CAO is an independent office that reports directly to the IFC and MIGA Boards of Executive Directors. For more information, see [www.cao-ombudsman.org](http://www.cao-ombudsman.org).

## About the Compliance Function

CAO’s compliance function reviews IFC and MIGA compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate.

CAO’s compliance function follows a three-step approach:



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Acronyms

<b>Acronym</b>	<b>Definition</b>
ACLEDA	ACLEDA Bank Plc.
Advans	Advans S.A. SICAR
AIP	Access to Information Policy
Amret	Amret Microfinance Institution Plc.
BFI	Banks and Financial Institutions
CAO	Office of the Compliance Advisor Ombudsman (IFC and MIGA)
CBC	Credit Bureau Cambodia
CMA	Cambodian Microfinance Association
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
ESRP	Environmental and Social Review Procedures
FCP	Financial Consumer Protection
FI	Financial Intermediary
GIIP	Good International Industry Practice
Hattha Bank	Hattha Bank Plc. (formerly Hattha Kaksekar Limited)
ICLT	Indigenous Communal Land Titles
IFC	International Finance Corporation
LOLC	LOLC (Cambodia) Plc.
MEF	Microfinance Enhancement Facility S.A., SICAV-SIF
MIFA	Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small, and Medium Enterprises
NBC	National Bank of Cambodia
North Haven Thai	North Haven Thai Private Equity L.P.

<b>Acronym</b>	<b>Definition</b>
OHCHR	Office of the United Nations High Commissioner for Human Rights
PS	IFC Performance Standards
PRASAC	PRASAC Microfinance Institution Plc.
Sathapana	Sathapana Bank Plc.
SME	Small and Medium Enterprises
SPI	Summary of Proposed Investment
TOR	Terms of Reference

## Executive Summary

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*This report examines IFC’s compliance with its Environmental and Social (E&S) policies in relation to 13 direct and indirect investments in six Cambodian financial institutions providing microfinance services—ACLEDA, Amret, Hattha Bank, LOLC, PRASAC, and Sathapana. CAO’s investigation responded to a complaint submitted on behalf of 18 microfinance borrowers<sup>1</sup>, alleging that the lending and debt collection practices of these institutions caused them, their families, and their communities adverse social impacts, including loss of land and livelihoods, harm to Indigenous Peoples, and lack of access to effective grievance mechanisms.*

*CAO finds that, during pre-investment due diligence and supervision<sup>2</sup> of its clients, IFC did not comply with its Sustainability Policy obligations to carry out investments with the intent to “do no harm”, to ensure that the costs of economic development do not fall disproportionately on poor or vulnerable people, and to seek to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards (2012 Sustainability Policy, paras. 7 and 9).<sup>3</sup>*

*IFC was aware of negative risks in the sector but considered impacts on microfinance borrowers to be outside the scope of its E&S policies and obligations. As a result, IFC did not consider borrowers and their families as vulnerable groups under the IFC Sustainability Policy. Nor did IFC require its clients to apply the relevant requirements in Performance Standard 1 (PS1) to employ good international industry practice (GIIP), Performance Standard 7 (PS7), and the IFC Exclusion List to their microfinance activities. CAO considers these omissions to be non-compliances that are related to the harm suffered by complainants, and recommends both project- and systemic-level remedial actions to IFC.*

*CAO acknowledges that microfinance has played a valuable role in promoting financial inclusion, enabling small enterprise growth and improving living standards for many low-income households. This investigation offers insights on how IFC can strengthen its practices in order to deliver these benefits more consistently and equitably, particularly for vulnerable populations.*

*The determinations in this investigation report are limited to an assessment of IFC’s compliance with its Environmental and Social (E&S) requirements in relation to the 13 IFC investments covered by this case, and to the related harm experienced by the 18 complainants who submitted the complaint to CAO. In making findings regarding Harm related to IFC non-compliance with its E&S*

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<sup>1</sup> The complaint to CAO was submitted on behalf of 18 individual borrowers. However, in the course of its investigation, CAO spoke with other members of the complainants’ household, some of whom were co-borrowers. CAO notes that the negative impacts described in this report are often experienced at the household level. Where appropriate, this report refers to the impacted households in lieu of the impacted individual.

<sup>2</sup> To ensure CAO’s assessment of IFC’s compliance with its Sustainability Framework was based on a full understanding of IFC’s efforts, CAO also took into account IFC’s efforts to promote more responsible microfinance under its *Financial Inclusion and Consumer Protection Strategy*.

<sup>3</sup> For the MEF investment, 2006 Sustainability Policy, paras. 5 and 8. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP. The investments in this case span 20 years. For the Advans (approved in 2004) and MEF (2009) investments other environmental and social (E&S) policies were applicable during some parts of the investment cycle. CAO will note the equivalent provisions in the respective policies, as relevant.

requirements, CAO considered project and sub-project E&S performance.<sup>4</sup> This consideration does not constitute an evaluation of the Cambodian microfinance sector as a whole.

## Global and National Microfinance Context

CAO notes that the issues raised in this complaint require a broader understanding of the importance of the microfinance sector, including trends, risks, and safeguards. IFC is a leading global investor in microfinance, lending \$6.2 billion to around 330 microfinance institutions (MFIs) and financial institutions focused on small and medium enterprises (SMEs) over the past 20 years. These clients and sub-clients provide financial services in 95 countries, including Cambodia.<sup>5</sup> CAO considers IFC’s longstanding and wide-ranging engagement in the sector relevant to this compliance investigation and recognizes the value and development benefits microfinance has brought to Cambodia, while at the same time highlighting the need for safeguards to be embedded in all development projects financed by IFC, particularly those involving vulnerable populations.

Microfinance emerged in the late 1970s as a tool for enabling vulnerable poor and low-income individuals and groups typically excluded from traditional banking<sup>6</sup> to increase household income, build assets, and reduce vulnerability to economic shocks. The subsequent expansion of microfinance has also supported job creation, stimulated local markets, and contributed to overall economic growth by mobilizing savings and increasing the circulation of capital within communities. In many countries, including Cambodia, these benefits have played a significant role in advancing financial inclusion and supporting national development objectives.<sup>7</sup>

At the same time, the rapid growth of microfinance since the late 1990s has in some countries been accompanied by poorly regulated lending and collection practices that in certain contexts have resulted in adverse social impacts on borrowers and their families.<sup>8</sup> These experiences prompted the development of lending standards and principles to avoid negative social impacts on borrowers, supported by the industry and investors, including development finance institutions (DFIs).<sup>9</sup>

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<sup>4</sup> CAO Policy, para.77

<sup>5</sup> IFC’s microfinance sector website: <https://bit.ly/4iQgJeQ>

<sup>6</sup> The absence of *formal* financial services was accompanied by a flourishing of *informal* ones, mainly in the form of the rotating savings and credit associations (ROSCAs) that go by names like *tanda* in much of Latin America, *susu* in W. Africa and Caribbean, *chit fund* in India, *tong tin* in Cambodia, *arisan* in Indonesia, and countless other examples in nearly every low- and middle-income country in the world and in immigrant communities just about everywhere else. David Roodman, *Due Diligence: An impertinent inquiry into microfinance*, Brookings Institution Press, 2012, pp.39-40.

<sup>7</sup> World Bank Group, *Microfinance and Household Welfare*, Cambodia Policy Note, 2019, <https://bit.ly/4nukijN>; Akotey, Joseph Oscar & Adjasi, Charles K.D., 2016. "Does Microcredit Increase Household Welfare in the Absence of Microinsurance?" *World Development*, Elsevier, vol. 77(C), pages 380-394; Crépon, Bruno, Florencia Devoto, Esther Duflo, and William Parienté. 2015. "Estimating the Impact of Microcredit on Those Who Take It Up: Evidence from a Randomized Experiment in Morocco." *American Economic Journal: Applied Economics* 7 (1): 123–50.

<sup>8</sup> Sam Mendelson and Daniel Rozas, Selected microfinance crises: past, present, and future, *Oxford Review of Economic Policy*, Volume 40, Issue 1, Spring 2024, Pages 30–43, <https://bit.ly/3Fomy14>, and CGAP, Greg Chen, Stephen Rasmussen, and Xavier Reille, Growth and Vulnerabilities in Microfinance, Focus Note, February 2010, p. 14-15. <https://bit.ly/4iKaYFC>.

<sup>9</sup> See CGAP, *Microfinance Consensus Guidelines: Guiding principles on regulation and supervision of microfinance* <https://bit.ly/3DrizFy>; The Smart Campaign, SPTF, CERISE, *The Client Protection Principles*, <https://bit.ly/3Fgg2AR>; and Center for Financial Inclusion, Accion, *Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers*, June 2019, <https://bit.ly/4nAkyO7>.

Cambodia’s experience reflects the challenges described above. Cambodia has more microfinance borrowers per capita than any other country. In 2022, when this complaint was filed, it was the 3rd most credit-saturated country in the world. The average size of microfinance loans grew from USD \$409 in 2006 to USD \$4,578 in 2023—representing 67% of per capita GDP (USD \$612) in 2006 and 188% of per capita GDP (USD \$2,429) in 2023. Multiple reports since 2009 have highlighted Cambodia’s over-indebtedness crisis and associated impacts on vulnerable populations, including loss of livelihoods and landlessness.

Responses to these concerns include Lending Guidelines developed by the Cambodian Microfinance Association (CMA), supported by social investors and DFIs, including IFC. Cambodia’s government also implemented some regulatory measures, such as capping interest rates and requiring financial institutions to set up mechanisms to receive consumer complaints. (See box below for more information on key reports documenting the adverse social impacts of microfinance in Cambodia and milestones in the development of Good International Industry Practice aimed at mitigating such impacts.)

CAO recognizes the value and development benefit microfinance has brought to Cambodia. At the same time, as this report shows, it is important for IFC to apply its Sustainability Policy to all projects financed by IFC, including microfinance investments to avoid and mitigate negative impacts and risks on vulnerable groups.

<b>Reports on Adverse Impacts of Microfinance in Cambodia and GIIP Milestones</b>		
<b>Year</b>	<b>Key Reports</b>	<b>GIIP Milestones</b>
<b>2002-2008</b>		<b>Microfinance guidelines and self-regulation principles</b> by the Consultative Group to Assist the Poorest (CGAP), Small Enterprise Evaluation Project (SEEP) Network, Accion International, Deutsche Bank and FMO
<b>2009-2010</b>	<b>World Bank-funded</b> assessment describes inability to repay loans as a “grave concern for the poor and vulnerable” in Cambodia	<b>Smart Campaign Client Protection Principles</b> <b>IFC’s Responsible Finance Forum</b> <b>CGAP technical guide for investors</b> to apply Client Protection Principles
<b>2011-2012</b>	<b>CGAP</b> identifies Cambodia’s MFI industry at high risk for over-indebtedness	<b>Principles for Investors in Inclusive Finance (PIIF)</b> <b>SPTF Universal Standards for Social Performance Management</b>
<b>2013</b>	<b>Cambodia Institute of Development</b> study raises risk of over-indebtedness	<b>Smart Campaign Certification Program</b>
<b>2015-2016</b>	<b>IFC Policy Paper</b> in Cambodia warns of over-indebtedness and weak financial consumer protection	<b>ALINUS tool</b> issued by SPTF Investor Working Group

Year	Key Reports	GIIP Milestones
2019	<b>World Bank Policy Note</b> warns of “increasing debt-to-consumption ratio”; Cambodian League for the Promotion and Defense of Human Rights (LICADHO) & Sahmakum Teang Tnaut (STT) report land loss and abuses in microfinance sector	<b>World Bank Technical Note</b> on Complaints Handling within Financial Service Providers
2020	<b>IFC-commissioned MIMOSA</b> report finds market saturation and lack of consumer protection in Cambodia	
2021	<b>Equitable Cambodia &amp; LICADHO</b> report on indebted land communities  <b>UN agencies and UN independent experts</b> express concern about adverse social repercussions of over-indebtedness in Cambodia	<b>CERISE+SPTF Client Protection Pathway</b>
2022 -2024	<b>German government-commissioned study</b> finds debt-related food reduction, land sales, and school dropouts  <b>Equitable Cambodia &amp; LICADHO</b> publish quantitative study of microloan borrowers  <b>60 Decibels</b> survey finds high repayment stress and negative social impacts in MFI clients	

## IFC Investments

IFC has invested in financial intermediaries (FIs) that provide microfinance in Cambodia since at least 2000 as part of World Bank Group efforts to support financial inclusion. Of the six Cambodian banks and financial institutions (BFIs) involved in this case, IFC has direct investments in ACLEDA, Amret, and Hattha Bank. When CAO received the complaint, IFC also had indirect financial exposure to Prasac, LOLC, and Sathapana, of which the last two remain active. This exposure came through investments in the Microfinance Enhancement Facility (MEF, renamed the Global Gender Smart Fund or GGSF), Microfinance Initiative for Asia Debt Fund (MIFA), North Haven Thai (a private equity firm), and Advans S.A. (a microfinance holding company).<sup>10</sup> In total, this case involves 13 IFC investment projects that support client lending to micro, small, and medium enterprises (MSMEs).

## The Complaint

CAO received a complaint in February 2022 from two NGOs—the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC)—on behalf of 18 individual borrowers who took out loans with one or more IFC client/sub-client. The complaint alleges that IFC’s investments have resulted in loss of their livelihoods and land, including Indigenous communal territory, and other negative social impacts. The complainants argue that IFC

<sup>10</sup> The six Cambodian BFIs whose practices are the subject of the complaint are ACLEDA, Amret, Hattha Bank, Prasac, LOLC and Sathapana. The seven direct IFC clients relevant to the case are ACLEDA, Amret, Hattha Bank, MEF, MIFA, North Haven Thai, and Advans.

failed to conduct adequate E&S due diligence and supervision of its clients to avoid or reduce social impacts and risks. They claim the clients/sub-clients often employ coercive extrajudicial collection tactics such as harassing borrowers at home; threatening to bring them before local authorities; and pressuring them to borrow more, take children out of school to work, or sell their land to repay loans.

The complaint argues that, given public information on the sector’s elevated risk of social harms, IFC should have required these lenders to screen their activities for social risks and impacts, including to borrowers. It points out that microfinance borrowers are likely to belong to vulnerable populations and thus require more protection and monitoring to ensure IFC projects do not have harmful social impacts. Due to their fear of reprisals for speaking out against the microfinance industry, the complainant borrowers asked CAO to keep their identities confidential.

## IFC Response

IFC’s Management Response acknowledges that the alleged harms are serious, but maintains that impacts on microfinance borrowers fall outside the scope of its E&S policies, on the grounds that:<sup>11</sup>

- Consumers of client products are not referenced in the Sustainability Policy or Performance Standards as a stakeholder category to which E&S risk mitigation measures apply.
- The IFC Sustainability Framework applies to potential E&S risks and impacts of the supported “business activity” on the “surrounding community and workers” but not to the E&S impacts on sub-clients themselves (in this case, microfinance borrowers).
- The business activity that IFC supports through FI clients is not microfinance lending itself but the end use activity that results from microfinance borrowers using those loans (e.g., small-scale agriculture or trading activities such as a convenience store).
- IFC addresses client lending and collection practices through its responsible finance framework and broader financial due diligence processes, not within the Sustainability Framework, an approach consistent with other multilateral and bilateral development banks, which address these risks through broader social protection strategies.

IFC also explains that, beyond the Sustainability Framework’s requirements, it has worked at institutional and sectoral levels for years to strengthen responsible finance practices in Cambodia.<sup>12</sup>

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<sup>11</sup> On June 29, 2023, IFC Management submitted a request for a Board review of CAO’s decision to investigate, presenting its position that adverse impacts on borrowers and consumer protection standards were outside the scope of IFC’s E&S Policies, and therefore IFC considered it outside the scope of CAO’s mandate. IFC indicated they address issues related to responsible finance principles and consumer protection separately from its E&S policies, through financial due diligence and monitoring and Advisory Services, which they believed outside CAO’s mandate. IFC withdrew its Board review request on July 28, 2023 and the CAO compliance investigation moved forward.

<sup>12</sup> CAO acknowledges and considers IFC’s separate approach when examining IFC’s compliance with its E&S policies in section 4 of this report.

## Policy Requirements

Specific provisions in the Sustainability Policy and Performance Standards (together comprising IFC’s Sustainability Framework) apply to this case.<sup>13</sup> Despite IFC’s stated position, above, CAO finds no exclusion or limitation in the application of IFC’s Sustainability Framework to financial consumers, microfinance borrowers, or, more generally, users of IFC-financed services.<sup>14</sup> On the contrary, several provisions make clear that microfinance activities are covered.

The Sustainability Policy:

- Commits IFC to ensuring that the costs of economic development do not fall disproportionately on poor or vulnerable people, a category that includes many microfinance borrowers (para. 9)<sup>15</sup>
- Confirms that the E&S sustainability of the activities IFC finances is integral to achieving positive development outcomes (para. 1)<sup>16</sup>
- Obligates IFC to seek to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances meet relevant Performance Standards (PS) requirements (para. 7)<sup>17</sup> —in this case, Performance Standard 1 (*Assessment and Management of Environmental and Social Risks and Impacts*) and Performance Standard 7 (*Indigenous Peoples*)
- Requires all financial intermediary (FI) clients, including MFIs, to operate an Environmental and Social Management System (ESMS) to manage the E&S risks and impacts of their portfolios consistently with PS1, the IFC Exclusion List<sup>18</sup>, and national law, as well as other Performance Standards depending on the E&S risk of the FI activities (paras. 33 and 35).<sup>19</sup>

Similar Performance Standards provisions also apply to microfinance investments. PS1 requires clients to identify vulnerable or disadvantaged groups and implement differentiated measures to avoid disproportionate adverse impacts, as well as establish an E&S Management System (ESMS) to identify and implement such mitigation measures for vulnerable people, in accordance with good international industry practice (GIIP). PS7 requires clients to assess, prevent, and mitigate adverse impact to project-affected Indigenous Peoples (IP). Moreover, the IFC Exclusion List addresses microfinance specifically, requiring that providers not pursue “activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of

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<sup>13</sup> The investments in this case span 20 years. For the Advans (approved in 2004) and MEF (2009) investments, other environmental and social (E&S) policies were applicable during some parts of the investment cycle. CAO will note the equivalent provisions in the respective policies, as relevant.

<sup>14</sup> The Sustainability Framework applies to all IFC projects and their full scope of E&S risks and impacts, including any “unique impacts” not specifically mentioned in the policies, “unless specifically excluded”. 2012 Sustainability Policy, paras. 1, 3, 20, and 22, and IFC Guidance Note to PS1, paras. 16 and 17.

<sup>15</sup> For the MEF investment, 2006 Sustainability Policy, paras. 5 and 8. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>16</sup> For the MEF investment, 2006 Sustainability Policy, para.1. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>17</sup> For the MEF investment, 2006 Sustainability Policy, para.5. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>18</sup> The IFC Exclusion list defines the types of projects IFC and its Financial Intermediary clients will not finance.

<sup>19</sup> For the MEF investment, 2006 Sustainability Policy, para. 29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

such peoples”.<sup>20</sup>

Taken together, these provisions confirm that the social risks and impacts of microfinance lending, resulting from certain lending and collection practices, fall squarely within the scope of IFC’s E&S requirements. CAO’s investigation therefore examined IFC’s compliance with these provisions of its Sustainability Framework.

## CAO Compliance Analysis and Findings

For this investigation, CAO analyzed IFC’s compliance with its E&S policies in relation to the complaint issues, as summarized below. This assessment considered relevant client and sub-client lending and collection practices in order to review IFC’s actions and compliance regarding vulnerable populations, Indigenous Peoples, and grievance mechanisms, and to assess related harm.

To ensure its assessment of IFC’s compliance with its Sustainability Framework was based on a full understanding of IFC’s activities, CAO also took into account IFC’s efforts to promote more responsible microfinance under its *Financial Inclusion and Consumer Protection Strategy*. While IFC does not currently apply its E&S policies to microfinance borrowers, it implements this separate *Strategy*, primarily from a financial perspective, to review microfinance clients’ lending and collection practices against established client protection standards and responsible finance principles (see box below). CAO notes that some of the GIIP standards relevant to preventing adverse social impacts on borrowers are, in part, applied by IFC through this separate framework.

Ultimately, the central question for CAO’s compliance review is whether IFC met the requirements of the Sustainability Policy, irrespective of the formal framework or program under which its actions were undertaken.

### IFC’s Financial Inclusion and Consumer Protection Strategy Summary of Relevant Practices<sup>21</sup>

At the project level:

- Financial due diligence: IFC typically includes a microfinance specialist as part of its financial team to conduct a review of the FI client’s responsible finance policies and procedures, including whether the client follows GIIP standards on financial consumer protection. The process does not include verification of implementation of these policies and procedures, and rarely involves site visits or interviews with borrowers and other stakeholders.
- Affirmative covenants in legal agreements: Some investment agreements include affirmative covenants requiring compliance with IFC’s Client Protection and Responsible Finance Principles. These Principles are often listed in annexes but are not accompanied by client reporting obligations or IFC verification of compliance.

Client compliance with these Principles or the client policies and practices reviewed during due diligence, is not monitored by IFC during the supervision stage of the investments. Thus, there is no specialized

<sup>20</sup> 2012 Sustainability Policy, para. 33, 35, 2012 Performance Standards Overview, para. 5; 2012 PS1, paras. 7, 12; 2012 PS7, 1, 8 and 9, and IFC Exclusion List. For the MEF investment, 2006 Sustainability Policy, para. 29; 2006 PS1, paras. 3, 4, 8, and 12; 2006 PS7, para. 1, 3, 7, 8 and 2007 IFC Exclusion List.

<sup>21</sup> IFC has taken steps to integrate responsible finance considerations into its investment processes, particularly in the microfinance sector since at least 2011, through its Financial Inclusion and Consumer Protection Strategy.

oversight of financial consumer protection practices once a project has been approved by IFC.

At the sector policy level:

- IFC works with and supports governments, industry associations, and other relevant stakeholders to increase capacity in the country, strengthen regulatory frameworks and provide advisory services on responsible finance policies and practices.
- In Cambodia specifically, IFC has supported the creation of the Credit Bureau of Cambodia (CBC) to improve debt assessments in Cambodia at the national level, advised the Government on relevant regulations, and provided advice and input to industry associations such as the Cambodia Microfinance Association (CMA) and the Association of Banks of Cambodia (ABC) on responsible finance practices. (See more details on IFC’s approach in section 4.1.)

For the analysis presented below and in section 4 of this report, CAO evaluated the actions of both IFC E&S officers and investment team members, such as microfinance or industry specialists, who examined the client lending and collection practices from a financial perspective, as relevant. This analysis assesses the consistency of IFC’s actions during due diligence and supervision with the IFC Sustainability Policy, including seeking to ensure that the investments adhered to IFC Performance Standards, regardless of who undertook the actions.

## 1. Consistency of IFC Investments with IFC Performance Standards

As explained above, IFC’s Sustainability Policy requires that activities IFC finances, including the lending and collection practices of IFC clients and sub-clients, should be consistent with IFC’s Performance Standards<sup>22</sup>, including GIIP, and relevant national law, in order to avoid and mitigate adverse social impacts on vulnerable populations and Indigenous Peoples. The extent to which IFC clients’ and sub-clients’ lending practices are consistent with these requirements is an important consideration in determining whether IFC complied with its obligations under the Sustainability Framework during due diligence and supervision of these investments. In considering IFC’s compliance, CAO examined IFC’s actions, including but not only under its *Financial Inclusion and Consumer Protection Strategy*, that could have resulted in achieving consistency with PS1 provisions on the application of good international industry practice.

While CAO’s compliance investigations do not make findings of non-compliance in relation to a specific project or sub-project, CAO does consider project or sub-project level E&S performance when determining IFC’s compliance with its E&S requirements, and when assessing harm.<sup>23</sup> CAO’s observations regarding IFC’s actions to ensure that the microfinance projects it financed were consistent with relevant PS are presented below.

**a) Adequate ESMS for vulnerable populations under PS1:** IFC FI clients are required to implement a PS1-compliant project ESMS that identifies and adopts special mitigation measures for vulnerable populations, following GIIP standards. Regarding the banks and financial institutions (BFIs) in this case, GIIP requires microfinance providers to:

- Conduct proper assessments of borrowers’ repayment capacity

<sup>22</sup> Paragraph 7 of the 2012 Sustainability Policy stipulates that “IFC seeks to ensure [...] that the business activities it finances are implemented in accordance with the requirements of the Performance Standards.”

<sup>23</sup> CAO Policy, 2012, para. 114

- Design products to avoid harm to clients, including by excluding collateral that would create severe hardship or significant loss of income-earning ability for the client
- Provide clear, sufficient, and timely information to allow potentially impacted populations to make fully informed decisions
- Implement robust safeguards to detect and correct aggressive or abusive treatment during loan sales and debt collection, which is also prohibited by Cambodian law.

In the course of this investigation, CAO considered client and sub-client policies, sector wide studies, and academic literature, and conducted interviews with microfinance borrowers, BFI staff, industry specialists, academics, civil society, and IFC staff. CAO observed the following gaps between the BFIs’ practices and the GIIP standards outlined above, as required by PS1:

- *Loan approval practices.* CAO observed that the policies and practices of the BFIs have not necessarily ensured adequate assessment of vulnerable borrowers’ repayment capacity. Shortcomings include heavy reliance on land collateral, and lack of adequate safeguards to prevent high-risk refinancing, with borrowers encouraged to take out new, larger loans to repay existing ones.
- *Aggressive lending and collection practices.* Borrowers frequently reported practices that, in their view, pressured them into taking on larger loans than needed or affordable, and into harmful coping strategies to meet repayment obligations. Aggressive practices included persistent visits to borrowers’ homes and workplaces, persuasion to acquire larger loans based on the value of collateral, and involvement of local village and commune chiefs in advertising and promoting loan products to vulnerable people.

In addition, borrowers consistently reported debt collection tactics, which, while not always formally included in the six BFIs’ documented policies, were employed by some BFI staff. These practices reportedly included involving local village and commune chiefs in debt collection, through means such as summoning borrowers to be questioned about their late debts;<sup>24</sup> the public shaming of indebted borrowers; threats of land or house confiscation; and suggestions that families borrow from informal money lenders at interest rates above legal limits and without legal protections, or withdraw their children from school to work to repay loans.

CAO observes that IFC lacked E&S oversight of client lending and collection practices to ensure that they were consistent with GIIP and addressed risks to, and impacts on, vulnerable borrowers consistent with PS1.

**b) Prevention of adverse impacts on Indigenous Peoples:** PS7 and the IFC Exclusion List require IFC clients to prevent adverse impacts on Indigenous Peoples and avoid impinging on their land without their consent. Cambodian national law also explicitly prohibits microfinance lenders

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<sup>24</sup> IFC and one of the BFIs included in this case have argued that some of the practices that involve local authorities are part of the role these authorities have in Cambodia to mediate disputes. Whether the local authorities are acting as mediators or in another capacity, CAO consistently heard from complainants, civil society, and academics with knowledge of the Cambodian social context that these practices create fear and confusion among vulnerable borrowers. These borrowers many times are not fully aware of the distinction between the government and private actors, which is the misunderstanding the relevant government regulation seeks to prevent. According to social academics, the combination of local power, shame, and moral responsibility often drives vulnerable borrowers to adopt harmful coping strategies to repay their debt, even if it would create significant hardship. Further details can be found in section 4.2.

from accepting Indigenous Collective Land Titles (ICLTs) as collateral. In relation to this complaint, GIIP requires microfinance products to be designed to benefit clients and BFIs to ensure clear, sufficient, and timely communication with borrowers in a manner and language that they can understand. CAO identified the following gaps between the client and sub-client practices and IFC’s E&S requirements:

- *Collateral on Indigenous land.* In multiple cases, BFIs accepted as collateral land situated within Indigenous Peoples’ territories,<sup>25</sup> risking loss of communal land plots without community consent and the subsequent potential erosion of the integrity of Indigenous Peoples’ communal land, their culture, and their access to natural resources—risks that PS7 requires clients to avoid.
- *Lack of culturally appropriate products.* CAO found no indication that the BFIs in this case, which work in majority Indigenous areas, had developed products tailored to Indigenous culture and livelihoods, such as providing alternatives to land based collateral specifically for Indigenous borrowers. Given the central role of land in Indigenous Peoples’ identity, livelihoods, history, and cultural heritage, the loss of such land can cause significant harm.
- *Lack of appropriate communication.* CAO found no indication that BFIs translated information or materials into Indigenous languages in regions with majority Indigenous populations, impeding communication with Indigenous Peoples who are often the intended client base in these regions.

**c) Establishment of project grievance mechanisms under PS1:** PS1 (paras. 22 and 35),<sup>26</sup> GIIP, and national regulations all require IFC clients/microfinance institutions to establish grievance mechanisms to receive, assess, and act on complaints from project-affected people. While all six BFIs have a complaint management policy, borrowers reported that these grievance mechanisms are inadequate to handle complaints and frequently perceived as a tool to further pressure borrowers. CAO found that IFC did not work with its clients to meet PS1 requirements.

- In several cases, borrowers claimed that the complaint resolution process often becomes a “fact-finding process” to intimidate and discredit complainants rather than resolving the individual issues raised
- Complainants also reported that the actions of some IFC clients and sub-clients may have contributed to a broader context of reprisals against critics of microfinance lending in Cambodia.

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<sup>25</sup> All seven IP complainants in this case reported that four IFC clients/sub-clients accepted soft land titles that overlapped with their ICLT certificates.

<sup>26</sup> For the MEF investment, 2006 Sustainability Policy, para. 17, 29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

## 2. IFC’s compliance with Sustainability Policy requirements that the microfinance activities it finances meet relevant Performance Standards

**a) Identification, assessment and management of differentiated impacts on vulnerable groups:** Under PS1’s requirements, outlined above, IFC’s FI clients and sub-clients should have identified microfinance borrowers, many of whom are poor, have low literacy, and are in precarious economic situations, as vulnerable, and applied tailored protections through their E&S Management Systems. CAO finds that IFC failed during both pre-investment due diligence and investment supervision to require its clients to take these measures.<sup>27</sup> Consistent with its position that microfinance borrowers are not impacted people to whom E&S risk mitigation measures apply, IFC did not require its clients to identify and assess the vulnerability of microfinance borrowers and their households, or adopt appropriate mitigation measures for any of these investments.

CAO notes that microfinance products are designed for underserved segments of the population, and that many borrowers and their families have low levels of reading, writing, financial, and legal literacy, which are factors that influence a person’s or household’s vulnerability.<sup>28</sup> Nevertheless, IFC categorized the 13 projects as medium to low E&S risk without taking into account the well-documented social risks and impacts on vulnerable microfinance borrowers in Cambodia, including loss of land, reduction in livelihoods, and loss of access to education.<sup>29</sup> These risks and impacts have been widely documented since the early 2000s and acknowledged by the World Bank Group, including IFC.<sup>30</sup>

IFC’s due diligence fell short of Sustainability Policy requirements (paras. 22, 31-35) as it did not include an adequate E&S review<sup>31</sup> of client capacity to manage the social risks of microfinance for vulnerable people, or of their capacity to ensure their subprojects do the same where applicable.<sup>32</sup> CAO considers that IFC’s efforts under its *Financial Inclusion and Consumer Protection Strategy* during due diligence and supervision were insufficient to ensure that its clients and sub-clients developed and implemented management systems consistent with GIIP and relevant national regulations. Specifically, IFC did not ensure the microfinance lenders established and implemented an ESMS with the capacity to identify disadvantaged or vulnerable individuals and groups, and implemented differentiated measures so that adverse impacts do not fall disproportionately on

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<sup>27</sup> IFC is required to undertake due diligence of risks and impacts according to the nature, scope, and specificity of the projects, Sustainability Policy (paras. 19, 21, 32-33 For the MEF investment, 2006 Sustainability Policy, para. 13, 27-29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>28</sup> These often include poor and low-income individuals and households who lack access to traditional banking services because they do not meet conventional collateral, income, or credit history requirements

<sup>29</sup> The Sustainability Policy requires IFC (i) to identify environmental and social of its FI investments taking into account the risks of the particular business activities of the FI and their own risk profile, (ii) to define requirements for managing those risks, and (iii) to categorize its investments taking into account the full magnitude of E&S risks and impacts of such investments, considering inherent environmental and social risks related to a particular sector as well as the context of the business activity. 2012 Sustainability Policy, para. 32, 34, 40 and 42. For the MEF investment, 2006 Sustainability Policy, para. 13, 18, 27-29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>30</sup> In 2009, a World Bank-funded assessment described inability to repay loans as “a grave concern for the poor and vulnerable” in Cambodia; in 2015, an IFC policy paper highlighted the potential social risks of over-indebtedness on individual consumers. From 2019 onwards NGOs and UN agencies have consistently reported on significant social harms to microfinance borrowers in Cambodia (see more details in sections 1.1.2 and 4.2 of the report).

<sup>31</sup> CAO’s analysis considered both IFC’s E&S due diligence and its microfinance-specific due diligence processes as part of IFC’s Financial Inclusion and Consumer Protection Strategy. It found that neither process adequately assessed the E&S risks associated with microfinance for vulnerable populations.

<sup>32</sup> For the MEF investment: 2006 Sustainability Policy, para. 17, 27-29.

them.<sup>33</sup> Moreover, IFC did not ensure that its clients met PS1 requirements to follow, and ensure sub-clients followed, national regulation prohibiting local authorities from promoting loan products, serving as sales agents, or demanding repayment from borrowers.<sup>34</sup>

Based on the above, CAO finds that IFC did not meet its Sustainability Policy obligations to design and carry out its investments with the intent to “do no harm” and ensure that the business activities it finances meet the relevant PS1 requirements, in particular for the for protection of vulnerable groups (paras. 7, 9, and 22).

**b) Identification, assessment and management of impacts on Indigenous Peoples:** Prior to investment, IFC did not apply the Sustainability Framework to review the potential E&S impacts on Indigenous Peoples or identify related mitigation measures in the investments covered by this case, which include microfinance providers operating in IP-majority regions. During due diligence, IFC relied on clients’ self-reporting, without documented verification, that their projects would not carry risks of adverse impacts to Indigenous Peoples or their land and cultural heritage.

While all 13 projects required application of IFC’s Exclusion List, which specifies the types of projects the institution will not finance, IFC only conducted a minimal pre-investment review for existing clients. In all cases CAO reviewed, IFC applied the Exclusion List to the potential impacts of sub-projects but not the FI clients’ own activities, and there is no evidence that IFC provided clients with information on how to address non-formally recognized IP land or that clients understood how to do so. During its site visit and interviews with local branch staff, particularly in regions with a majority IP population, CAO observed that many of the staff of BFIs interviewed had only a superficial understanding of Exclusion List requirements prohibiting their activities from impinging on IP land.

During E&S supervision, IFC monitored how its clients applied the Exclusion List requirements but provided little documented advice or guidance on the List’s provisions related to Indigenous Peoples, which prohibit microfinance activities that impinge on the land of Indigenous communities without their full documented consent. Even in cases where clients reported that the IP exclusion item was a common reason for loan rejections, IFC did not request verification of how the provision was being applied in practice. CAO’s review of the clients’ and sub-clients’ policies and practices also identified instances where soft land titles from Indigenous borrowers that overlap with IP communal land were accepted as collateral without the community’s consent. This reliance on land as collateral creates a risk that Indigenous borrowers will use individual plots within communal land as collateral in order to maintain access to credit—undermining the protection that the Exclusion List provision is intended to provide.

CAO finds that IFC did not meet its obligations to prevent adverse impacts on Indigenous Peoples and ensure that microfinance activities it finances do not impinge on their lands, without their full documented consent in line with PS7 (paras. 8 and 9)<sup>35</sup> and the IFC Exclusion List. CAO also finds

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<sup>33</sup> As required by the 2012 Sustainability Policy, paras 33 and 35, and PS1, para. 7 and 12. For the MEF investment: 2006 Sustainability Policy, para. 27-29, and 2006 PS1, para. 4, 8 and 12. For the Advans investment, see 1998 ESRP, para. 22, footnote 7.

<sup>34</sup> As required by the 2012 Sustainability Policy, para. 35 and PS Overview, para. 5. For the MEF investment: 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

<sup>35</sup> For the MEF investment, 2006 PS7, paras. 7 and 8.

that IFC did not ensure its clients and sub-clients followed related national law protecting Indigenous Peoples’ land rights (2012 Sustainability Policy, para. 35; PS Overview, para. 5).<sup>36</sup>

**c) Access to recourse to address grievances:** The banks and financial institutions in this case operate grievance mechanisms intended to provide borrowers with access to redress and report on these mechanisms to IFC. However, based on its review of IFC’s E&S due diligence and supervision records, CAO found that IFC generally confirmed the existence of these mechanisms without examining their functioning or adequacy. Specifically, CAO found no evidence that IFC evaluated whether the BFIs’ complaint channels met PS1 requirements, including whether they were prompt, accessible, culturally appropriate, transparent, and equipped with safeguards to prevent retribution.<sup>37</sup> From 2022 onwards, IFC provided advice and training to some clients on preventing threats and reprisals against borrowers who had raised concerns through these mechanisms. While a positive development, these were limited in depth and were not followed by IFC supervision.

Based on the above, CAO finds that IFC did not meet its obligations to ensure the clients and sub-clients established adequate grievance mechanisms as required by the 2012 Sustainability Policy (para. 35) nor consistent with PS1 (paras. 34 and 35).<sup>38</sup> Nor did IFC seek to ensure its clients followed relevant national regulations governing the resolution of complaints at financial institutions, as required by the 2012 Sustainability Policy (para. 35) and the PS (Overview, para. 5)<sup>39</sup>

### Harm Related to IFC Non-Compliance

Based on the evidence reviewed during its investigation, including IFC’s actions under its *Financial Inclusion and Consumer Protection Strategy*, CAO finds that the 18 complainants experienced Harm related to IFC’s non-compliance with its Sustainability Policy obligations to identify and mitigate the social impacts associated with its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA.<sup>40</sup> CAO considers that IFC did not meet the requirement under the Sustainability Policy to work to ensure, through its due diligence, monitoring, and supervision, that the activities it finances are implemented in compliance with the Performance Standards.<sup>41</sup>

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<sup>36</sup> For the MEF investment: 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9. Related national law includes: Article 334 of Cambodian Civil Code Procedures (2006); Ministerial order (Prakas) No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators (2017); Article 19 of the Consumer Protection Law (2019). Law on consumer protection (NS/RKM/1119/016); and Sub-decree (Prakas) B7-017-299 on Resolution of Consumer Complaints.

<sup>37</sup> 2012 PS1 para.35, 2006 PS1, para.23.

<sup>38</sup> For the MEF investment, 2006 Sustainability Policy, para. 28 and 29, 2006 PS1, para. 23.

<sup>39</sup> For the MEF investment, 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

<sup>40</sup> The Sustainability Policy obligates IFC to seeks “...to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards” (para. 7).

<sup>41</sup> The Sustainability Policy obligates IFC to seeks “...to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards” (para. 7).

CAO finds Harm as follows:

- 1. Loss of livelihood and productive assets.** Fifteen complainants, most of whom were already economically vulnerable, reported a decrease in livelihood after selling their agricultural land or other income-generating assets to repay microfinance debts. They described making these sales in response to debt collection pressure or out of fear that the lender would auction their land collateral below market value. Eleven complainants cited reliance on farming as their primary source of income, of whom four had sold all or most of their agricultural land, forcing them to abandon farming for daily work or resort to harmful coping mechanisms.<sup>42</sup> Complainants reported the loss of productive land or assets significantly reduced their ability to generate income, increasing their risk of falling into, or deeper into, poverty.
- 2. Reduced food security, health impacts, and family disruption.** Of the 18 complainants, six reported reducing the quality or quantity of household meals to repay debt. In 12 cases, complainants reported either postponing medical treatment or experiencing mental health impacts, including insomnia, anxiety, depression, loss of appetite, and in some cases, suicidal thoughts or attempts. Ten complainants withdrew their children from school to help repay debt, with children entering work in all cases.<sup>43</sup> In seven cases, complainants or their family members migrated to other countries or regions in Cambodia to seek work to repay loans, which complainants said led to family separation, disruption of children’s education, exposure to poor working conditions, and gender-specific vulnerabilities. In some cases, it also created further financial strain.
- 3. Impacts on Indigenous Peoples.** Complainants who are Indigenous Peoples reported additional negative impacts. Seven complainants from a government-recognized IP community reported selling plots that overlapped with communal land to repay microfinance debts, which reduced their livelihoods and, in some cases, affected their identity as Indigenous Peoples. Two of these sales were to non-IP community members. Given that Indigenous Communal Land Titles (ICLTs) are established to “protect collective ownership” and “preserve the identity, culture, [...] custom and tradition of each indigenous community”, CAO considers that the sale of communal land to non-community members inherently affects the broader Indigenous community.<sup>44</sup> CAO concludes that IFC’s shortcomings regarding lenders’ reliance on using land as collateral and acceptance of collateral overlapping with protected Indigenous land, undermined ICLT processes, compromised the

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<sup>42</sup> The coping mechanisms are described below and include reducing quality and quantity of meals, postponing medical treatment, taking children out of school to help repay debt, or family members migrating, sometimes to contexts with unsafe working conditions, to seek work to repay debt.

<sup>43</sup> All of the children, aged 13 to 17, engaged in either permanent or temporary work to help financially support their families. Some of these faced risks of hazardous or exploitative working conditions.

<sup>44</sup> Sub-decree on Procedures of registration of land of Indigenous communities, June 09, 2009, No.83 ANK, BK <https://bit.ly/3lrHZK9>, Art. 2. In 2018, the UN OHCHR highlighted that securing land and resource rights is fundamental to the long-term well-being of Indigenous Peoples’ Communities in Cambodia and essential for their continued existence as distinct peoples. See: UN OHCHR, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People Communities in the Provinces of Ratanakiri, Mondulakiri and Kratie, October 2018, p. <https://bit.ly/4bSh11P>. In alignment with these principles, the World Bank Group supports the Land Allocation for Social and Economic Development (LASED) project, which aims to strengthen land tenure security and promote inclusive development through ICLT for indigenous and rural communities in Cambodia. See: World Bank Group, Land Allocation for Social and Economic Development Project III, project #P171331, <https://bit.ly/43CGnoC>.

integrity of communal IP land, contributed to intra-community conflicts, and negatively affected Indigenous identity and culture.

- 4. Threats and intimidation.** All but one complainant reported that officials from the IFC clients and sub-clients threatened them with retaliatory actions such as being taken to local authorities, the police, or the courts, or having their land or home confiscated and sold at below-market value. These tactics reportedly created a climate of fear, discouraging borrowers from approaching lenders for resolution options and leading them to adopt harmful coping strategies. In addition, complainants who attempted to use grievance mechanisms reported that the process itself became a source of threats and harassment. CAO also notes that three female complainants reported the prolonged presence of male BFI officers in their homes while they were alone, which they perceived as an additional form of intimidation.

### **Overall findings of harm**

The types of harm described above were reported directly to CAO by the complainants. They are consistent with social risks and adverse impacts widely documented in studies by international and national organizations, including UN agencies, civil society groups, and academics on over-indebtedness and microfinance in Cambodia.<sup>45</sup> This alignment between complainant testimony and broader documented evidence reinforces the credibility of the harms they described and situates them within well-recognized patterns of social impact in the microfinance sector.

CAO finds that these harms reflect the particular vulnerabilities of the 18 complainants and their households, whose reliance on small-scale agriculture, limited legal and financial literacy, language barriers, and limited awareness of debtor rights increased their exposure to the adverse effects of harmful lending and collection practices.

Based on the evidence, CAO concludes that these harms are related to IFC’s non-compliance with its Sustainability Policy, particularly its obligations under its Sustainability Framework to ensure that clients: identify, assess, and manage E&S risks in accordance with Good International Industry Practice (GIIP); give special consideration to the circumstances and needs of vulnerable people; ensure that such groups are not disproportionately affected by project impacts; and maintain effective, accessible, and trusted grievance mechanisms free from risk of retaliation. The consequences of the harms experienced by these complainants extend beyond individual borrowers to their households, communities, and, in the case of Indigenous Peoples, their cultural heritage and identity.

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<sup>45</sup> See, for example: United Nations Office of the High Commissioner for Human Rights (OHCHR) (2019), *Microfinance in Cambodia: A Human Rights Perspective*, Phnom Penh; United Nations Special Rapporteur on the situation of human rights in Cambodia (2023), *End of Mission Statement*, Phnom Penh; Cambodian League for the Promotion and Defense of Human Rights (LICADHO) & Equitable Cambodia (2019), *Collateral Damage: Land Loss and Abuses in Cambodia’s Microfinance Sector*; World Bank (2019), *Cambodia Economic Update: Maintaining Sustainable Growth*, Washington, DC; German Federal Ministry for Economic Cooperation and Development (BMZ) & Cambodian Microfinance Association (CMA) (2022), *Over-Indebtedness Study in Cambodia*; 60 Decibels (2024), *Cambodia Microfinance Social Performance Report*; and Green, W., & Bylander, M. (2023), “The Coercive Power of Debt: Microfinance and Land Dispossession in Cambodia,” *World Development*, Vol. 161.

## Underlying Causes of Non-Compliance

CAO identifies the following underlying causes for IFC’s non-compliances in this case:

- 1. Adopting an approach that fails to consider social risks to and impacts on project beneficiaries:** IFC’s Sustainability Policy commits the institution to achieving positive development outcomes by ensuring, through due diligence, monitoring, and supervision, that the activities it supports are environmentally and socially sustainable and PS-compliant. The Policy also requires that the costs of economic development do not fall disproportionately on poor or vulnerable people, and applies the Performance Standards to ensure clients deliver on this commitment.<sup>46</sup> In this case, IFC’s non-compliance stems from not recognizing microfinance borrowers, their families, and communities — who include farmers, Indigenous Peoples, and others whose vulnerability is linked to low literacy (including financial literacy), low income, and reliance on land-based livelihoods — as a vulnerable affected population.
- 2. Disconnect between sector-level leadership and project-level application:** This case highlighted a gap in approach between IFC’s extensive sector-level engagement to promote responsible finance in Cambodia and its limited application of that same knowledge, standards, and practices to the due diligence and supervision of its own microfinance investments. IFC has been an active player in Cambodia’s microfinance sector for over two decades, supporting initiatives to address the risk of over-indebtedness and strengthen responsible finance practices. Examples include collaboration with the National Bank of Cambodia to establish the Credit Bureau of Cambodia (CBC) and with the Cambodian Microfinance Association and CBC to develop lending guidelines, as well as its advisory services to strengthen financial consumer protection frameworks. These efforts reflect a clear recognition of the potential negative impacts of microfinance and a commitment to promoting good international industry practice (GIIP) at the sectoral level. Yet, IFC did not systematically apply this same understanding and GIIP standards to its own microfinance investments. As a result, the very risks IFC was working to mitigate in the sector, such as over indebtedness, loss of productive assets, and harmful collection practices, were not consistently identified, assessed, or addressed within the projects it financed. This gap between IFC’s sector-level leadership and its project-level practice contributed to the persistence of social harms among borrowers in the investments covered by this case.

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<sup>46</sup> Performance Standard 1, together with related standards (PS5, PS7, PS2), requires clients to identify vulnerable or disadvantaged groups, assess disproportionate risks, and implement measures to avoid harm and ensure they share in project benefits.

## CAO Recommendations to IFC

Taking into account the above findings, CAO recommends that IFC take the following actions.

### *Project-Level Recommendations*

1. **IFC should work with its clients to design and implement an effective program to assess, strengthen, and resolve the insolvencies and indebtedness of individual borrowers, including the 18 who submitted this complaint.** Options should include a pause in repayments, forgiveness of interest or debt owed, loan restructuring, refinancing without increasing debt, livelihood or employment support or other adequate measures, depending on each borrower’s situation. These programs should also consider:
  - a. **Collecting baseline data and socioeconomic profiles of sub-borrowers**, including their loan exposure, interest rates, repayment capacity, and socioeconomic vulnerability, through a qualified agency or local NGO, to ensure community trust and participation.
  - b. Exploring all **loan restructuring, refinance, or forgiveness options** for impacted borrowers with verifiable financial hardship, and **consideration of exit pathways for indebted borrowers**. The latter could include individualized debt management planning, referral to income generation initiatives, financial counseling, and helping borrowers with long-term strategies to reduce reliance on credit.
  - c. **Partner with community-based NGOs** to establish communication channels with borrowers, monitor lending practices, and promote meaningful stakeholder engagement throughout IFC’s ongoing investments. Partnerships could also offer **livelihood and employment support** and connect borrowers with relevant job markets (for example, by organizing job fairs, vocational training, and employer engagement activities in collaboration with local authorities).

IFC can leverage its contractual agreements and reputational influence to secure client participation, and partner with trusted local NGOs to conduct borrower assessments and deliver livelihood support. IFC could also mobilize donor trust funds or its Advisory Services resources to finance debt counseling, vocational training, and monitoring.

2. **IFC should continue efforts to support the creation of a functionally independent<sup>47</sup> complaint mechanism for all microfinance providers in Cambodia** that follows Good International Industry Practice in line with PS1 requirements. The mechanism should be independent in governance and operations from financial institutions and their affiliates, and FIs should commit to comply with and implement its resolutions. IFC began working with the Association of Banks of Cambodia, the Cambodian Microfinance Association (CMA), and other development partners in 2024 to establish such a mechanism for the sector. IFC could convene these partners along with the National Bank of Cambodia (NBC), other DFIs, and civil society to co-design an effective model.<sup>48</sup>

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<sup>47</sup> A functionally independent complaint mechanism should function without influence or control from any of the potential parties to the complaints it could receive.

<sup>48</sup> Options for funding could include a blended model of donor contributions, MFI levies, and development partner support.

3. **IFC should carry out comprehensive assessments of the policies and practices of each financial institution** involved in this case in order to:
  - a. Identify and address PS1 and PS7 gaps, including relevant GIIP, and strengthen capacity of the clients and sub-clients
  - b. Require clients to incorporate social performance criteria beyond loans approved or debts collected in incentive schemes for credit/collection officers and supervisors.
4. **IFC should develop a client training program** to systematically strengthen grievance mechanisms at the client and sub-client level, with an emphasis on developing tools and capacity for dispute resolution that prevents threats, harassment, or reprisals against borrowers. In parallel, provide specialized training aligned with GIIP for credit and collection officers, covering proper assessment of repayment capacity, and understanding of IFC requirements regarding Indigenous Peoples and how to avoid harm in their lending and collection practices. IFC should require follow-up reporting on implementation.
5. **IFC should work with clients to develop and implement financial empowerment programs** that: (i) build vulnerable borrowers’ understanding and capacity in engaging with BFIs, and (ii) develop accessible communication and loan information material for borrowers. Training should be tailored to local languages and literacy levels, and delivered by agencies or NGOs with established community presence. Content should include informed borrowing, risk of over-indebtedness, loan terms, grievance mechanisms, and borrowers’ rights, with the aim of enabling borrowers to make informed decisions and engage constructively with BFIs. As part of this effort, IFC should support client and sub-clients to develop loan documentation and borrower communications that are accessible, culturally appropriate, and presented in local languages to ensure informed consent and borrower understanding of rights and obligations.

### ***Institutional-Level Recommendations***

To address the underlying causes of the non-compliance findings in this case, CAO recommends that IFC strengthen integration of its Sustainability Policy obligations—including those related to the identification, assessment, and protection of vulnerable groups and Indigenous Peoples—into the structuring, due diligence, and supervision of its microfinance activities.

IFC could build on its existing work on responsible finance and sector reform in the global and Cambodian microfinance markets, to:

1. **Develop capacity and tools, as well as leverage in-house expertise, to design and implement a process for use during project due diligence and supervision to comprehensively identify vulnerable groups and assess E&S impacts of investments involving microfinance.** This process should also evaluate the capacity and experience of its clients to meet GIIP requirements regarding vulnerable borrowers and Indigenous Peoples. During supervision, IFC should require FIs to include in their annual monitoring reports the profiles of a representative sample of micro-credit borrowers (e.g., with the loan amount and term, interest rates, repayment made, their financial vulnerability and levels of distress, and how the FI staff interact with the community). This would help IFC track

borrower outcomes and ensure client alignment with the Performance Standards, GIIP, and relevant national law.

- 2. Incorporate standard covenants, with reporting requirements, on the fulfillment of GIIP regarding vulnerable borrowers in legal agreements for financial inclusion investments.** These GIIP standards should be binding requirements that the clients fulfill and report on in their E&S annual reports, and which IFC will monitor to verify their implementation.

## Next Steps

This report, as dated, has been finalized by CAO and sent to IFC Management and the IFC Board of Executive Directors. In accordance with the CAO Policy, IFC will submit a Management Report to the Board for consideration that will include a Management Action Plan (MAP) for the purpose of addressing CAO’s findings of non-compliance and related Harm. The MAP comprises timebound remedial actions proposed by Management. The Management Report should also include a reasoned response to CAO’s findings or recommendations that IFC/MIGA is unable to address in the MAP. Once the IFC Board approves the MAP, CAO publishes this investigation report and IFC’s Management Report. CAO’s role thereafter is to verify, through compliance monitoring, the effective implementation of MAP actions.

## 1. Background

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For 45 years, microfinance<sup>49</sup> has been considered a promising tool to improve the livelihoods of the most disadvantaged people by providing financial services to poor and low-income individuals or groups who are typically excluded from traditional banking. IFC is the World Bank Group’s main investor in microfinance and a leading global investor, working with around 330 microfinance institutions (MFIs) and small and medium enterprise (SME) focused financial institutions, which provide financial services in 95 countries.<sup>50</sup> Microfinance has served as a lifeline for many low-income households with positive financial and welfare impacts by expanding access to finance, reducing reliance on unregulated moneylenders, and offering longer loan terms with lower effective interest rates.<sup>51</sup>

### 1.1 Financial inclusion sector’s global evolution

Microfinance projects emerged in the late 1970s when most rural and low-income households in the Global South lacked meaningful access to formal financial services, with the objective to provide credit to poor households who had no collateral and could not get bank credit.<sup>52</sup> By the 1990s, a number of non-governmental organizations (NGOs) emerged with the specific goal of establishing microfinance operations around the world.<sup>53</sup> In 1999, there were 156 microfinance institutions (MFIs) in 58 countries reporting to the global database for microfinance, MIX Market;<sup>54</sup> by 2011, 2,515 institutions had reported at least once to MIX Market.<sup>55</sup>

The number of microfinance borrowers and loan portfolios also grew quickly. Between 1999 and 2010, MIX data reported an increase from over 9 million to over 100 million microfinance borrowers globally. At the same time, microfinance loan portfolios increased from \$1.8 billion in 1999 to \$90 billion by 2010.

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<sup>49</sup> Microfinance broadly refers to banking services for low-income people, especially the poor and the very poor. Definitions of these services vary from country to country. More narrowly it is also often referred to microcredit for microentrepreneurs. The amounts that are considered micro also vary from country to country. CGAP, Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance <https://bit.ly/3DrIzFy>. Microfinance currently is understood to have gone beyond credit for investment in microenterprises, to cover the many and diverse financial service needs of poor people. [The New Microfinance Handbook](#) (2013)

<sup>50</sup> IFC’s microfinance sector website : <https://bit.ly/4iQqJeQ>

<sup>51</sup> World Bank Group, Cambodia Policy Note on Microfinance and Household Welfare, 2019, p.6. Available at <https://bit.ly/3NITyWL>.

<sup>52</sup> The absence of *formal* financial services was accompanied by a flourishing of *informal* ones, mainly in the form of the rotating savings and credit associations (ROSCAs) that go by names like *tanda* in much of Latin America, *susu* in W. Africa and Caribbean, *chit fund* in India, *tong tin* in Cambodia, *arisan* in Indonesia, and countless other examples in nearly every low- and middle-income country in the world and in immigrant communities just about everywhere else. David Roodman, *Due Diligence: An impertinent inquiry into microfinance*, Brookings Institution Press, 2012, pp.39-40;

<sup>53</sup> The early pioneers, Accion (experimenting with microcredit in the 1970s) and FINCA (founded in 1984) were already operating in multiple countries. Charitable NGOs like Opportunity International, World Vision, Freedom from Hunger, and others were establishing microfinance NGOs in countries where they operated.

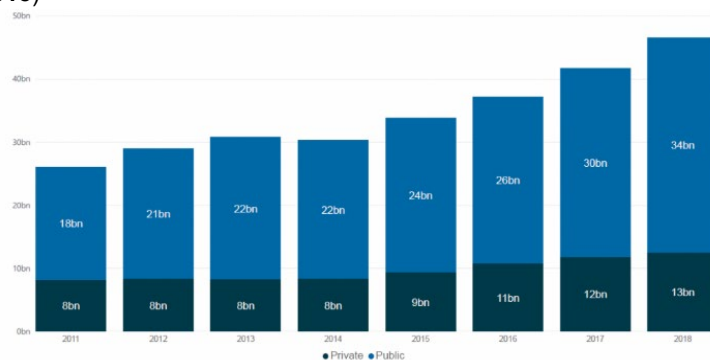
<sup>54</sup> MIX Market data: <https://bit.ly/41KUNAZ>. MIX Market is the premier source of public information on microfinance institutions (MFIs) and their financial and social performance, which offers analysis reports at the global, regional, and country levels. CGAP, Patrick Spaven and Karina Broens Nielsen, *Measuring Market Development: A Handbook for Funders and Implementers of Financial Inclusion Programs*, October 2017, p. 61, <https://bit.ly/4414MDy>.

<sup>55</sup> MIX Market data: <https://bit.ly/41KUNAZ>. MIX Market changed its data collection strategy after 2011, focusing on institutions with more consistent reporting, overall institution numbers declined after 2011, even as the number of clients and loan portfolios continued to grow.

As microfinance institutions multiplied, the NGOs running them encountered structural and regulatory challenges to raising funds. As a result, during the 2000s, many NGOs offering microfinance transformed into commercial for-profit institutions.<sup>56</sup>

At the same time, international funding supported the rapid expansion of the microfinance industry. By 2004, the international financial institutions had allocated \$1 billion to microfinance, with another \$600 million allocated by privately-managed funds.<sup>57</sup> International capital flowing to microfinance reached \$47 billion by 2018 (see Figure 1).

**Figure 1: International Funding trends for financial inclusion (2011-2018)**



Source: CGAP Cross-Border Funder Survey 2008-2016, Trendable Set N=21, Synbiotics MIV Survey 2009 - 2019

This rapid growth was accompanied by challenges.<sup>58</sup> For example, between 1999 and 2001 a credit crisis in Bolivia linked to excessive lending to microfinance borrowers resulted in substantial defaults, borrower protests, and the rise of debtor associations.<sup>59</sup> Between 2008 and 2009, similar repayment crises occurred in Morocco, Nicaragua, and Bosnia after periods of rapid growth, prompting regulatory and governance improvements.<sup>60</sup> In 2010, extreme growth in microfinance lending in Andhra Pradesh, India, resulted in widespread multiple borrowing and over-indebtedness, rising default rates, and multiple reports of debtor suicides, prompting the local

<sup>56</sup> Deborah Drake, Elisabeth Rhyne. *The Commercialization of Microfinance: Balancing Business and Development*, Kumerian Press, 2002; Ira W. Lieberman, *The Growth and Commercial Evolution of Microfinance*, in *The Future of Microfinance* 12, 9-35 (Ira W. Lieberman, Paul Dileo, Todd A. Watkins & Anna Kanze eds., 2020), <https://bit.ly/4kPwJWn>. See also, Conger, L., Inga, P., and Webb, R. (2009), *The Mustard Tree: A History of Microfinance in Peru*, San Isidro, Universidad de San Martin de Porres.

<sup>57</sup> Xavier Reille and Ousa Sananikone. *Microfinance Investment Vehicles*, CGAP, April 2007. IFIs here are defined as “the private-investment arms of public development agencies,” which includes multi-lateral development institutions like IFC and IADB, as well as bilateral ones like KfW, FMO, etc.

<sup>58</sup> Sam Mendelson and Daniel Rozas, *Selected microfinance crises: past, present, and future*, *Oxford Review of Economic Policy*, Volume 40, Issue 1, Spring 2024, Pages 30–43, <https://bit.ly/3FomyL4>, and CGAP, Greg Chen, Stephen Rasmussen, and Xavier Reille, *Growth and Vulnerabilities in Microfinance*, Focus Note, February 2010, p. 14-15. <https://bit.ly/4iKaYFC>.

<sup>59</sup> On July 2, 2001, associations of poor fruit vendors, cobblers and farmers took Bolivia’s Superintendency of Banks hostage. Laden with dynamite, they demanded forgiveness or reduction of their debt incurred through microlenders and consumer lenders. The situation was resolved, but over-indebted microfinance clients remain. Elisabeth Rhyne, *Crisis in Bolivian Microfinance*, in *Monday Developments*, <https://bit.ly/3XRmAyx>, Elisabeth Rhyne, *Commercialization and Crisis in Bolivian Microfinance*. DAI, Nov 2001.

<sup>60</sup> CGAP, Greg Chen, Stephen Rasmussen, and Xavier Reille, *Growth and Vulnerabilities in Microfinance*, Focus Note, February 2010. <https://bit.ly/4iKaYFC>. In Bosnia, one factor in over-indebtedness was the lack of industry standards for code of conduct which left clients unprotected from unfair treatment and malpractice. See, Klaus Maurer and Justyna Pytkowska, *Indebtedness of Microcredit Clients in Bosnia and Herzegovina*, European Fund for Southeast Europe Development Facility. <https://bit.ly/4iGluME>. In Morocco, a study commissioned by IFC resulted in an information sharing platform between MFIs, improvements in their governance and lending practices, and increased government supervision. IFC, *Ending the Microfinance Crisis in Morocco: Acting early, acting right*, 2014 <https://bit.ly/426coEM>; In Nicaragua, the World Bank supported strengthening of the regulatory framework and oversight of microfinances, including consumer protection. WB, *Nicaragua Broad Based Access to Financial Services*, October 2013, <https://bit.ly/3XODkqg>;

government to intervene, prohibiting most of the MFIs’ activities.<sup>61</sup>

From the Bolivia crisis onwards, the sector embarked on efforts to address and avoid the adverse impacts of microfinance. In September 2002, the Consultative Group to Assist the Poor (CGAP), of which IFC and the WB are members, adopted consensus guidelines on the industry’s regulation and supervision.<sup>62</sup> Accion International, a leading non-profit MFI, adopted the first set of industry principles in 2004,<sup>63</sup> which were subsequently promoted by the Smart Campaign, a global initiative led by the Center for Financial Inclusion (CFI) and housed at Accion International, between 2009 and 2020. The Smart Campaign also developed the Client Protection Principles, the first global financial consumer protection standard, and established a certification program to validate responsible practices by financial service providers.<sup>64</sup> Since the Smart Campaign’s closure in 2020, the Social Performance Task Force (SPTF)+Cerise has assumed stewardship of the Client Protection Principles.<sup>65</sup> These developments reflect the emergence of good practices in managing the social risks and impacts of microfinance investment (see section 3.7.2 and Annex B for a more detailed timeline).

## 1.2 Microfinance and over-indebtedness in Cambodia

The microfinance industry in Cambodia largely mirrors the sector’s evolution globally. The country’s first MFIs launched in the early 1990s with funding from international NGOs and donor agencies as part of a rural development program<sup>66</sup> and were institutionalized as NGOs within a few years.<sup>67</sup> As

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<sup>61</sup> In October 2010, the State Rural Development Minister of Andhra Pradesh announced an Ordinance to protect borrowers from “harassment” by MFI agents, following protests and reports of increasing violence. Allegations included instances of kidnapping children, forced prostitution of young girls to coerce their parents into repayment, and abundant reports of MFI agents pressing clients to commit suicide to use life insurances to repay the loans. Philip Mader, Rise and Fall of Microfinance in India: The Andhra Pradesh Crisis in Perspective, p. 55. <https://bit.ly/4hxHTMs>; Sam Mendelson and Daniel Rozas, Selected microfinance crises: past, present, and future, *Oxford Review of Economic Policy*, Volume 40, Issue 1, Spring 2024, Pages 30–43, <https://bit.ly/44eNuEE>; and Biswas, Soutik, “India’s micro-finance suicide epidemic”, *BBC News*, December 2010, available at <https://bit.ly/3OMLOKD>.

<sup>62</sup> CGAP, Microfinance Consensus Guidelines: Guiding principles on regulation and supervision of microfinance <https://bit.ly/3DrizFy>.

<sup>63</sup> Patrick McAllister. Trust Through Transparency: Applicability of consumer protection self-regulation to microfinance. The SEEP Network Consumer Protection Task Force. Mar 2003; CGAP Focus Note No.27: Protecting Microfinance Borrowers. May 2005. CGAP is a global partnership of more than [35 leading development organizations](#), including IFC and the World Bank, that works to advance the lives of people living in poverty, especially women, through financial inclusion. See <https://bit.ly/4itj2L5>.

<sup>64</sup> See, The Smart Campaign, SPTF, CERISE, The Client Protection Principles, <https://bit.ly/3Fqg2AR>. Also see: Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, [https://www.centerforfinancialinclusion.org/wp-content/uploads/2024/02/Principles-Guidelines\\_Aug-2021-update-1.pdf](https://www.centerforfinancialinclusion.org/wp-content/uploads/2024/02/Principles-Guidelines_Aug-2021-update-1.pdf).

<sup>65</sup> SPTF+Cerise is a joint venture between two global leaders in social and environmental performance management in responsible finance. SPTF, founded in 2005, developed and regularly updates the Universal Standards for Social and Environmental Performance Management. Cerise, a French nonprofit created in 1998, pioneered the implementation of social performance management, working with committed microfinance institutions to launch the Social Performance Indicators initiative in 2001. See: <https://bit.ly/41Rk3FM>. While Cerise+SPTF has developed resources detailing the professional and ethical standards that external reviewers should meet and the qualifications they should possess, Cerise+SPTF does not investigate or confirm third-party compliance with the Guidelines and Client Protection framework nor recommend, endorse, or make any representations regarding any third party. See: SPTF, Third-Party Validation, <https://cerise-sptf.org/third-party-validation/>

<sup>66</sup> CGAP, Country Level Effectiveness and Accountability Review, January 2005, p.3 <https://bit.ly/4bPKS6y>

<sup>67</sup> CGAP, Country Level Effectiveness and Accountability Review, January 2005, p. CGAP, Country Level Effectiveness and Accountability Review, January 2005, p.4 <https://bit.ly/4bPKS6y>

the Royal Government of Cambodia developed the country’s financial sector in the late 1990s,<sup>68</sup> most microfinance NGOs evolved into commercial banks integrated into the financial system.<sup>69</sup> These former NGOs now account for six of the country’s ten largest banking institutions and more than 90% of active loans reported in December 2023, and are the same six Cambodian BFIs subject to the CAO complaint and IFC’s clients and sub-clients in this case (see Table 1 below).<sup>70</sup>

**Table 1: 10 largest banks/MFIs in Cambodia by loan portfolio (as of Dec 2023)<sup>71</sup>**

	Bank/MFI or former MFI	Total Loans (mIn KHR)	Total Assets (mIn KHR)	Year Est.
1	Advanced Bank of Asia Limited (ABA)	31,612,275	46,969,953	1996
2	ACLEDA Bank Plc.	26,641,332	38,620,529	1993
3	KB Prasac Bank Plc.	20,789,051	23,711,293	1995
4	Canadia Bank Plc.	19,865,673	32,677,469	1991
5	Sathapana Bank Plc.	8,952,027	11,414,469	1995
6	AMRET Plc.	6,568,023	8,514,844	1991
7	Hattha Bank Plc.	6,424,465	8,644,614	1994
8	Cambodian Public Bank Plc.	5,739,320	8,924,852	1992
9	Foreign Trade Bank of Cambodia	5,177,267	8,210,381	1979 <sup>72</sup>
10	LOLC (Cambodia) Plc.	5,125,240	6,438,514	1994

Investments by IFC and other DFIs played a major role in the evolution of these MFIs into commercial banks,<sup>73</sup> through both equity and debt investments.<sup>74</sup> However, these investments

<sup>68</sup> Cambodia developed its microfinance sector at the same time as the country’s wider banking system. The Khmer Rouge had previously eliminated the financial system and blown up the headquarters of the central bank, and as a result Cambodia had to rebuild its entire banking sector from scratch. See <https://bit.ly/43JCRcw>

<sup>69</sup> A major impetus behind the evolution of NGOs into commercial banks was to enable MFIs to receive deposits and use them to significantly expand their operations as commercial MFIs were doing in other countries. CGAP, Country Level Effectiveness and Accountability Review, January 2005, p. CGAP, Country Level Effectiveness and Accountability Review, January 2005, p.5 <https://bit.ly/4bPkS6y>

<sup>70</sup> See MIMOSA Cambodia 2020. The breakdown shows members of the Cambodia Microfinance Association (CMA) accounting for 73% of total loans by number, though this counts the former MFIs ACLEDA and Sathapana as banks. Combining these two together with CMA members brings the share of MFI and former MFI lenders to 91% of the total.

<sup>71</sup> Data from NBC, as of Dec 31, 2023 (<https://bit.ly/3SOE7of>). Year established retrieved from the websites of the institutions themselves. The data from 2024 was not available on the NBC website at the time of drafting this report.

<sup>72</sup> Foreign Trade Bank of Cambodia was part of the central bank until it was spun off as an independent state-owned commercial bank in 2000 (<https://bit.ly/4kMUPku>)

<sup>73</sup> Frank Bliss, "Micro" Finance in Cambodia: Development, Challenges and Recommendations, Updated Version August, 2022, Institute for Development and Peace (INEF), University of DuisburgEssen (AVE Study 30/2022), p. 31, <https://bit.ly/3XRpDXv> (hereinafter the "Bliss report). Project funded by the German Federal Ministry for Economic Cooperation and Development (BMZ). CGAP, Country Level Effectiveness and Accountability Review, January 2005, p. CGAP, Country Level Effectiveness and Accountability Review, January 2005, <https://bit.ly/4bPkS6y>

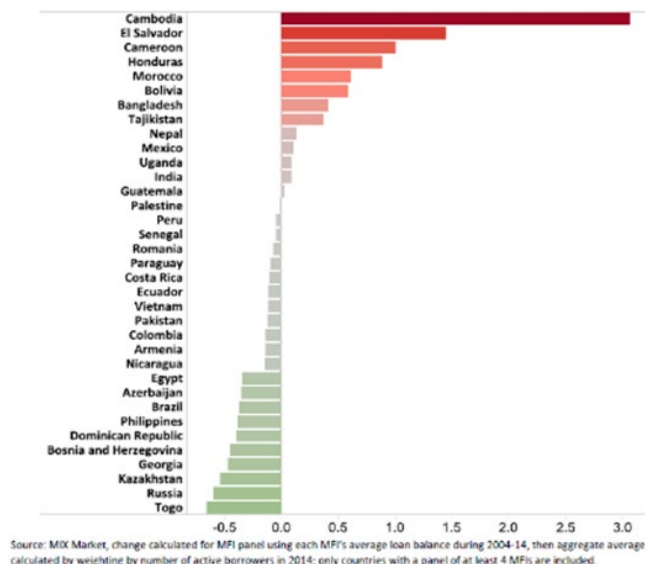
<sup>74</sup> By 2012, international funders made up 87% of the shareholding among the 15 largest Cambodian MFIs, although nearly all these equity investments had been sold on to commercial investors by 2023. DFIs also heavily invested in Cambodian MFIs through debt, and by 2015, Cambodia was the single largest destination for investments from microfinance funds. Sanjay Sinha, *Microfinance in Cambodia: Investors’ playground or force for financial inclusion?*, M-CRIL Dec 2013. Daniel Rozas, *Responsible Equity Exits: Lessons from Cambodia*, Findev Gateway, Mar 2024: <https://bit.ly/424aEMj>; 2015 Microfinance Investment Vehicles Survey, Symbiotics, Sep 2015,19; Private Asset Impact Fund Surveys, Tameo, 2020-23; 2015 Microfinance Investment Vehicles Survey, Symbiotics, Sep 2015,19; Private Asset Impact Fund Surveys, Tameo, 2020-23

began to decline in 2019, amid increased concerns about over-indebtedness, market saturation, and social harms.

Commercial investors have facilitated the industry’s rapid expansion. Cambodia now has the greatest number of microfinance borrowers per capita in the world, and as of 2022, was the 3rd most credit-saturated country in the world.<sup>75</sup> In Cambodia, widespread land ownership among microfinance clients and the relatively easy access to soft land titles led to MFIs securing most of their loans by using land as collateral.<sup>76</sup>

Loan sizes also increased markedly – from an average of USD \$409 in 2006<sup>77</sup> to USD \$4,578 in 2023<sup>78</sup> – in a country where GDP per capita is \$2,429.<sup>79</sup> Microfinance loan amounts in particular grew more than four times faster than borrower incomes during 2004-2014 (see Figure 2).<sup>80</sup>

Figure 2: Change in average loan balance/GNI per capita (2004-2014)



Microfinance has enabled borrowers in Cambodia to invest in income-generating activities and acquire assets such as houses and high-value consumer goods.<sup>81</sup> At the same time, the above

<sup>75</sup> 2023 Mimosa Cambodia Special Circular. The evolution of Cambodia’s MFIs into commercial banks also led to a shift from group-based lending (where collective liability means loans are more likely to be repaid) to individual lending. As in other countries, this shift was driven by a combination of client demand for larger loans and MFI incentives to grow their portfolios. Data from MIX Market: <https://bit.ly/41KUNAZ>; W. Nathan Green, Theavy Chhom, Reach Momy and Jennifer Estes, The Underside of Microfinance: Performance Indicators and Informal Debt in Cambodia, Development and Change, Volume 54, Issue 4, International Institute of Social Studies, June 2023, <https://bit.ly/3DvvET0>

<sup>76</sup> Bliss report, p. 67, <https://bit.ly/3XRpDXy>, and W. Nathan Green, Theavy Chhom, Reach Momy and Jennifer Estes, The Underside of Microfinance: Performance Indicators and Informal Debt in Cambodia, Development and Change, Volume 54, Issue 4, International Institute of Social Studies, June 2023, <https://bit.ly/3DvvET0>; An impact assessment of microfinance in Cambodia, M-CRIL, Nov 2023, <https://bit.ly/42XlvHc>, p.59. (hereinafter the “M-CRIL – CMA Impact Assessment 2023”), The term *soft titles* refers to the practice in Cambodia of local authorities issuing certifications of land ownership which are then traded outside the formal cadastral system.

<sup>77</sup> Calculated from CMA NIX 2006.

<sup>78</sup> M-CRIL – CMA Impact Assessment 2023, p.3 – based on same CMA data. CAO notes that this figure may include some non-microfinance loans—such as SME loans—issued by microfinance institutions (MFIs).

<sup>79</sup> World Bank Group, GDP per capita – Cambodia, 2023, <https://bit.ly/46Dq9vQ>.

<sup>80</sup> MIMOSA Cambodia, Special Circular Jun 2016 p. 2. Between 2016-19, the growth in the number of clients greatly slowed (3% per annum), even as portfolios continued to grow nearly as fast as before (24% per annum) – i.e. loan sizes began growing faster (32% per annum). Loan refinancing, in which borrowers acquire larger loans partly to repay existing loans likely accounted for some of this growth. See W. Nathan Green and Maryann Bylander, The Exclusionary Power of Microfinance: Over-indebtedness and Land Dispossession in Cambodia, June 2021, Sociology of Development, Volume 7, Issue 2, June 2021, p. 209, <https://bit.ly/3R9HzsA> (hereinafter the “Green, Bylander, The Exclusionary Power of Microfinance, 2021”).

<sup>80</sup> Bliss Report, pp. 10,119, 120

<sup>81</sup> Bliss Report, pp. 10,119, 120

described trends have resulted in Cambodia becoming one of the most indebted countries in the world by volume of microfinance debt, resulting in significant livelihood losses among the country’s poorest.<sup>82</sup> Concerns about potential risks of over-indebtedness were first raised in a 2009 World Bank-funded assessment; from 2011 onwards, additional reports specifically noted the risk that land loss may reduce the quality or quantity of households’ food supply, and other adverse social impacts. In 2015, IFC identified the risks that over-indebtedness and a weak consumer financial protection framework could pose to the Cambodian economy and individual consumers, including the risk of land loss, and in 2016, then Prime Minister Hun Sen called for Cambodia’s MFIs to address the problem.<sup>83</sup>

In response, in 2016, the CMA, Cambodia’s professional association for MFIs, developed Lending Guidelines<sup>84</sup> through which MFIs voluntarily committed to reduce over-indebtedness via four rules on reporting to the CBC, multiple loans, refinancing, and client protection.<sup>85</sup> From 2017 onwards, the Cambodian government also rolled out regulatory measures capping interest rates at 18% per year, requiring all FIs set up a consumer complaint mechanism, prohibiting local authorities from supporting debt collection activities, allowing for loan restructuring,<sup>86</sup> and prohibiting all forms of threats and intimidation during the loan recovery process.<sup>87</sup>

Despite these measures, concerns over microfinance indebtedness continued to build. In 2019, the World Bank warned of the sector’s increasing debt-to-consumption ratio;<sup>88</sup> in 2020, an IFC commissioned MIMOSA report concluded that Cambodia had reached the maximum level of market saturation in the MIMOSA framework and that client protection regulations in Cambodia’s MFI

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<sup>82</sup> See Green, Bylander, The Exclusionary Power of Microfinance, 2021; See M-CRIL – CMA Impact Assessment 2023, p. 49, and 60\_decibels, Cambodia Insights from the 60 dB Microfinance Index, 2024, <https://bit.ly/43JJ6xl>, citing The World from PRX. (2023, October). Microfinance was meant to help the world’s poor, but in Cambodia, it’s plunging people more into debt. <https://bit.ly/3ZPhVyn>

<sup>83</sup> IFC, Promoting Financial Consumer Protections in Cambodia, 2015, pp. 29–33. Available at <https://bit.ly/41LJkma>, and Green, Bylander, The Exclusionary Power of Microfinance, June 2021, p. 202-203, <https://bit.ly/3R9HzsA>.

<sup>84</sup> Incofin, Incofin spearheads pioneering self-regulatory initiative to prevent over-indebtedness in Cambodia, 2018, <https://bit.ly/3RepKbP>

<sup>85</sup> Approved in December 2016, the Guidelines were endorsed by almost all development finance institutions (DFIs) then active in Cambodia, but not initially endorsed by IFC Memorandum of Understanding on Temporary Lending Guidelines, Preah Sihanouk MOU. Cambodia Microfinance Association, 2 December 2016. CMA Lender Guidelines, Annex 2: Endorsement Statement by Lenders. 28 Nov 2018.

<sup>86</sup> In response to the COVID-19 crisis, the NBC introduced a loan restructuring policy in March 2020, and in August 2024, issued a circular providing further guidance for restructuring efforts. The 2024 circular allows BFIs to restructure loans up to two times without altering their classification or requiring additional provisioning, establishes that restructuring must involve favorable terms (reduced principal or interest, deferred payments, or borrower modifications) and is intended only for customers facing short-term financial challenges, that FIs must inform customers clearly, report regularly to the NBC, and use internal policy criteria beyond just CBC data when approving loans. NBC, Circular on Loan Restructuring; Phasy Res, Microfinance in times of Covid19: Consumer Protection and the Loan Restructuring Process in Cambodia, June 2021, p. 65, <https://bit.ly/4iLFoap>, and RHTLaw Cambodia, Monthly Legal Update, August 2024, <https://bit.ly/4mTBzCU>

<sup>87</sup> Sub-decree (Prakas) on the Interest Rate Cap, 2017, Article 3,4 : <https://bit.ly/4iKjTXC>; Sub-decree (Prakas) on the Resolution of Consumer Complaints, 2017, <https://bit.ly/3FGuxAB>; Ministry of Interior. (2017). Instructive Circular No. 556 S/CH/N on the case of private banks, microfinance institutions, and private rural credit operators. Phnom Penh; Article 19 of the Consumer Protection Law –Royal Government of Cambodia (2019). Law on consumer protection (NS/RKM/1119/016). Phnom Penh. This provision states that no person shall exerts coercion by force, disturbance or mental threat with respect to the supply of goods or services or payments for the goods or services. The Cambodian law on consumer protection does not cover financial services of non-bank providers. As Point 14 of Article 4 states, “Service refers to any rights, benefits, facilitation provided or offered under the following types of contracts, except non-bank financial services.”

<sup>88</sup> World Bank Group, Cambodia Policy Note on Microfinance and Household Welfare, 2019, p.11. <https://bit.ly/3NITywl>

sector needed substantial strengthening.<sup>89</sup> Several human rights NGOs and the UN have also raised concerns about the impacts of high debt levels on the most vulnerable,<sup>90</sup> and quantitative studies commissioned by the German government and the CMA identified debt-related food reduction, land sales, and children dropping out of school to work and help repay debt as coping mechanisms.<sup>91</sup>

In 2022 and 2023, the Association of Banks in Cambodia (ABC), the CMA, and the Cambodia Association of Fintech & Technology adopted a Code of Conduct which includes the Lending Guidelines and the SPTF+Cerise Client Protection Pathway, and the CMA produced a template contract for all MFIs in an effort to promote transparency, effectiveness, and consumer protection.<sup>92</sup> IFC has participated in and supported all these initiatives. Over the past two decades, in addition to the efforts described above, IFC has been addressing the social impacts of microfinance in Cambodia through sector-level initiatives and provided advisory support to financial institutions—including Hattha Bank—to promote responsible finance and improve governance and risk management (see more details in section 4.1).

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<sup>89</sup> Microfinance Index of Market Outreach and Saturation (MIMOSA) Report on Cambodia, March 2020, p. 7-8

<sup>90</sup> The first LICADHO report about land loss among microfinance clients was issued in Aug 2019. <https://bit.ly/3DOHDLj>. After the Mimosasa report, Human Rights Watch urged the World Bank Group to investigate Cambodia’s micro-loans, and sent [two letters](#) to IFC highlighting abuses in micro-lending (such as allegedly forced land sales) and their exacerbation during Covid-19. See <https://bit.ly/426kuxa>. See also, Amnesty International, Report 2020/21, p. 106,108: <https://bit.ly/3p9M8bE>. For the UN, see UN Independent Expert Report on Private Debt and Human Rights, Annual Report of OHCHR, Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of human rights, particularly economic, social and cultural rights, (2020), A/HRC/43/45 at p.1 and para. 32–34; Report of the UN Secretary-General to the Human Rights Council, Annual Report of OHCHR, Role and achievements of the OHCHR in assisting the Government and people of Cambodia in the promotion and protection of human rights, 17 August 2022, A/HRC/51/63, para. 42; Report of the UN Secretary-General to the Human Rights Council, Role and achievements of the OHCHR in assisting the Government and people of Cambodia in the promotion and protection of human rights, 16 September 2021, A/HRC/48/49, para. 40; Committee on Economic, Social and Cultural Rights, Concluding observations on the second periodic report of Cambodia, 27 March 2023 E/C.12/KHM/CO/2, paras. 38 and 39(b); Report of the Special Rapporteur on the situation of human rights in Cambodia, Vitit Muntarbhorn to the Human Rights Council, (2023), A/HRC/54/75, para. 60: <https://bit.ly/3Fr4FbH>; Report of the Special Rapporteur on the situation of human rights in Cambodia, Vitit Muntarbhorn to the Human Rights Council, (2024), A/HRC/57/82, p. 13,18: <https://bit.ly/4bSj6S7>.

<sup>91</sup> Bliss report, pp. 45 and 76. Project funded by the German Federal Ministry for Economic Cooperation and Development (BMZ); M-CRIL - CMA, Impact Assessment, 2023, commissioned by the Cambodia Microfinance Association. A 2024 survey of 2,939 clients of Cambodia’s largest financial service providers continued to reflect repayment stress among borrowers leading to negative social impacts such as selling land and children dropping out of school. 60decibels, Cambodia Insights from the 60db Microfinance Index, 2024, p.6.

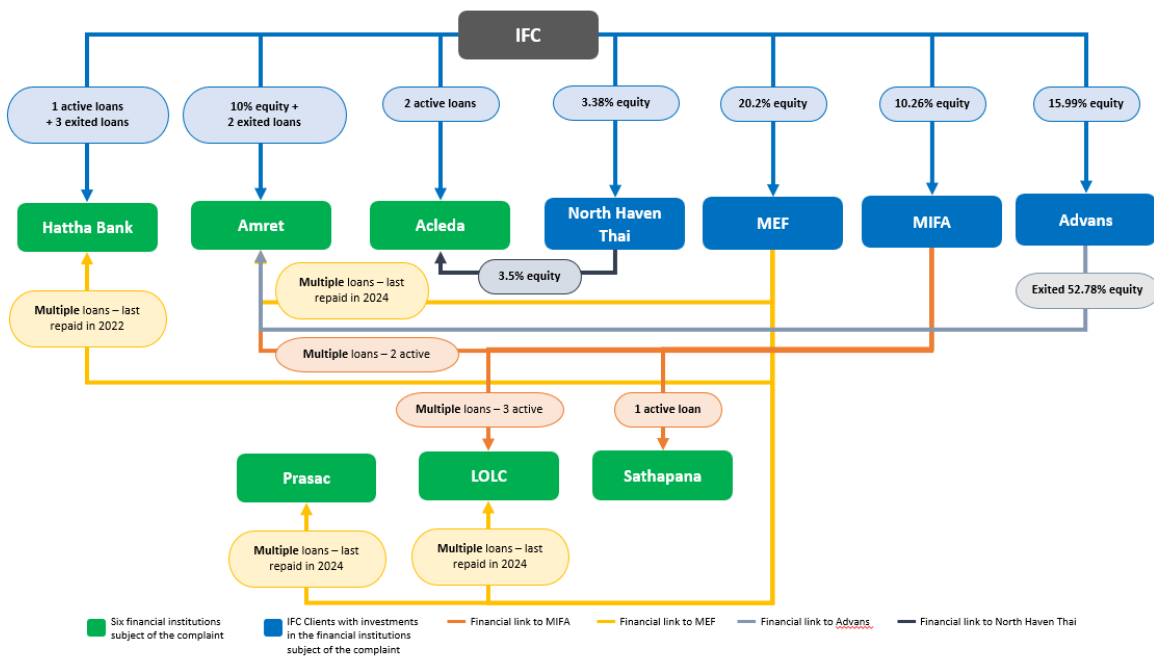
<sup>92</sup> CMA, Cambodia Microfinance Association Initiatives, <https://bit.ly/3XMq7y8> and Hin Pisei, Standard contract for all loans takes effect November 1, *The Phnom Penh Post*, Aug.2023, <https://bit.ly/43lqXzK>.

## 2. IFC’s Investments in Six Financial Institutions Subject to the CAO Complaint

IFC has provided extensive support to Cambodia’s financial sector through technical assistance and direct investments with a focus on financial inclusion and development of financial infrastructure.<sup>93</sup> IFC has made significant investments in several financial institutions that provide microfinance in Cambodia since at least 1998.

In relation to this case, IFC has direct investments in ACLEDA, Amret, and Hattha Bank and indirect financial exposure to PRASAC, LOLC, and Sathapana through investments in the Microfinance Enhancement Facility (MEF), the Microfinance Initiative for Asia Debt Fund (MIFA), North Haven Thai (a private equity company), and Advans S.A. (a microfinance holding company) (see Figure 3).<sup>94</sup> In total, this case involves 13 IFC projects that support client lending to micro, small, and medium enterprises (MSMEs).<sup>95</sup>

**Figure 3: IFC Investments included in this case<sup>96</sup>**



<sup>93</sup> The World Bank Groups Country Partnership Framework for Cambodia (FY2019-FY2023), p. 25: <https://bit.ly/3R82Dje>.

<sup>94</sup> The six Cambodian BFIs whose practices are the subject of the complaint are, ACLEDA, Amret, Hattha Bank, Prasac, LOLC and Sathapana. The seven direct IFC clients relevant to the case are ACLEDA, Amret, Hattha Bank, MEF, MIFA, North Haven Thai, and Advans.

<sup>95</sup> All these projects were active when the complaint was filed with CAO in February 2022. As of this report, eight projects remain active and five have been exited. The details are explained in the sections below.

<sup>96</sup> The exited investments indicated in the graph represent only the projects active in February 2022 when the complaint was filed. IFC had exited several additional projects with these clients before the complaint was filed.

### 2.1.1 ACLEDA and North Haven Thai

ACLEDA was established in January 1993 with support from ILO and UNDP as a national NGO to provide loans to agricultural and micro, small and medium enterprise (MSME) clients, and is currently the second largest commercial bank in Cambodia.<sup>97</sup> ACLEDA was IFC’s first financial market project in Cambodia in 1998 and the partnership remains active.<sup>98</sup> In 2000, IFC made an equity investment that in part supported ACLEDA’s transformation from an NGO to an MFI and later into a commercial bank that provides loans to micro, agricultural, and MSME clients (project #9675, not subject to this case).<sup>99</sup> IFC provided technical assistance and supported ACLEDA over many years for its successful application for a banking license in 2003.<sup>100</sup> IFC exited its equity investment in 2014, but has continued its other investments with ACLEDA. Since 2000, IFC has financed 26 projects with a focus on MSME clients,<sup>101</sup> and supported six advisory projects to help the client build institutional capacity, improve resilience, develop innovative products, and strengthen responsible finance practices and integrated risk management.<sup>102</sup> This case includes two current IFC loans to ACLEDA (projects #42480 and #44882) to support lending programs for small and medium enterprises (SMEs) with a total investment of up to US\$279 million, approved in 2019 and 2021, respectively, and both categorized as FI-2 (moderate/medium risks).<sup>103</sup>

A third, related IFC investment is also included in the case. In 2018, IFC acquired a 3.38% equity stake in North Haven Thai (project #38609), a private equity fund managed by Morgan Stanley,<sup>104</sup> which in turn acquired a 3.5% equity stake in ACLEDA in April 2022,<sup>105</sup> which represents 10.2% of the fund’s size. The IFC Asset Management Company (AMC) also committed in North Haven Thai, through the IFC GEM Fund in June 2018.<sup>106</sup>

At the end of 2023, ACLEDA’s loan portfolio in Cambodia totaled US\$6.6 billion with approximately 660,000 loans managed by 12,045 employees across 264 branches, generating a net profit of

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<sup>97</sup> ACLEDA Bank website: <https://bit.ly/4kRmocr>. For the history of ACLEDA and IFC’s role, consult: Clark, Heather 2006: *When There Was No Money: Building ACLEDA Bank in Cambodia's Evolving Financial Sector* & Clark, Heather 2020: *Beyond Borders, Beyond Banking: The ACLEDA Bank Story 2005-2019*.

<sup>98</sup> IFC, *Banking on Sustainability: Financing Environmental and Social Opportunities in Emerging Markets*, 2007, p. 70, <https://bit.ly/4iKkb0E>.

<sup>99</sup> IFC, *Expanding Access to Microfinance in Cambodia through a Strategic Partnership*, *Microfinance Stories of Impact*, 2014, <https://bit.ly/3XRw5xH>.

<sup>100</sup> IFC, *Expanding Access to Microfinance in Cambodia through a Strategic Partnership*, *Microfinance Stories of Impact*, 2014, <https://bit.ly/3XRw5xH>.

<sup>101</sup> IFC projects #9675, #21489, #22320, #24590, #25501, #25712, #26596, #27882, #30607, #31728, #32207, #32642, #33124, #33697, #34386, #35242, #35963, #36768, #37594, #38560, #38943, #39989, #40931, #41170, #42480 and #44882.

<sup>102</sup> Advisory Projects #503832, #535664, #537350, #554006, #605059 and #607236.

<sup>103</sup> FI–2: when an FI’s existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented”. IFC 2012 Sustainability Policy, para. 40.

<sup>104</sup> North Haven Thai is a generalist private equity fund targeting mid-market companies primarily in Thailand. The Fund is managed by Morgan Stanley Private Equity Asia.

<sup>105</sup> IFC Management Response, p.8

<sup>106</sup> The IFC Global Emerging Markets Fund of Fund, LP and its parallel vehicle, IFC Global Emerging Markets (Japan) Fund, LP (together, “IFC GEM Fund”), were launched in 2015. The IFC GEM Fund is a \$800 million fund that invests in private equity funds, secondaries, and co-investments, in emerging markets alongside IFC. See: <https://bit.ly/4iIN656>.

US\$148 million that year.<sup>107</sup> ACLEDA offers consumer and Small Business loans of up to US\$50,000.<sup>108</sup> In 2023, 5.39% of ACLEDA’s loan portfolio was not performing (NPL/PAR>30) due to these loans being in arrears for more than 30 days.<sup>109</sup> ACLEDA obtained certification of its client protection practices in 2017 from the Smart Campaign, one of the first commercial banks in the country to do so. It also received a Client Protection Certificate in 2021 from MicroRate and in 2024 from MFR.<sup>110</sup>

## 2.1.2 Amret and Advans

Amret is a deposit-taking MFI and one of the top 10 financial institutions in Cambodia. It was set up in 1991 by the French organization GRET as a rural credit project operating through village associations in three provinces (Kandal, Kampong Speu, and Prey Veng).<sup>111</sup> In 2005, IFC obtained indirect equity in Amret through its equity investment in Advans, an international microfinance group and holding company, established that year to finance MFIs in low income countries (project #21856).<sup>112</sup> Advans became Amret’s majority shareholder (with 52.78%) in 2014-2015 and IFC currently owns 15.99% of Advans shares. In 2014, IFC also purchased a 19.99% direct equity stake in Amret (project #34748),<sup>113</sup> as part of a restructuring plan to support Amret’s transition to a commercial bank.<sup>114</sup> Similarly, the Dutch Entrepreneurial Bank (FMO) increased its stake to 19.9% in 2015. In March 2024, Bank SinoPac acquired 80% of Amret for approximately US\$543 million<sup>115</sup> with IFC and FMO selling 50% of their shares and Advans selling all of its stake.<sup>116</sup> IFC’s planned exit of Amret, to support Amret’s further growth into a commercial bank, was planned over three years to ensure a responsible exit<sup>117</sup>, a smooth transition and the continued implementation of safeguards to enhance the institution’s social performance.<sup>118</sup>

In addition to its equity stake, IFC provided Amret with three loans and one advisory service between 2014 and 2020, all of which were exited prior to completion of this report.<sup>119</sup> Two of these loans (projects #41294 and #44231), active between 2018-2022 and 2020-2023, respectively, related to the complaint and are included in this compliance investigation. Both were MSME loans

<sup>107</sup> ACLEDA. Annual Report 2023, p.8, 12 and 28, <https://bit.ly/41RnjRs>.

<sup>108</sup> ACLEDA, Personal Loans, <https://bit.ly/43KjWOR>.

<sup>109</sup> ACLEDA. Annual Report 2023, p.2, <https://bit.ly/41RnjRs>. The supervision report by the National Bank of Cambodia reports an NPL ratio of 6%. National Bank of Cambodia, 2023 Supervision Report, 2024, p. 38, <https://bit.ly/4iskMnQ>.

<sup>110</sup> ACLEDA Bank website; <https://bit.ly/3FtSqv7>.

List of institutions on the Pathway: <https://bit.ly/4isl5Pw>.

<sup>111</sup> See Amret, About Amret, <https://bit.ly/41Ruk4O>.

<sup>112</sup> IFC, La Fayette La Fayette Investissements, <https://bit.ly/4hB9v3o>.

<sup>113</sup> IFC, Request for Board Review of Decision to Investigate the CAO Complaint Concerning Three IFC Clients: ACLEDA (Projects #42480, #44882) Amret (Projects #34748, #44231) HTB (Projects #44742, #45535) and Four Sub-projects Concerning ACLEDA Bank, HTB, Amret, PRASAC, Sathapana, and LOLC (Projects #27827, #31467, #21856, #38609), 2023, p. 9, <https://bit.ly/3XU2n1r>.

<sup>114</sup> FMO, Amret PLC: Project #43460, <https://bit.ly/426oLAI>.

<sup>115</sup> Josh Sayle, Phnom Penh Post, Local MFI sells for half billion, May 6, 2024, <https://bit.ly/4iujpol>. See Bank SinoPac: Corporate Profile, <https://bit.ly/3DPcUcf>.

<sup>116</sup> Advans, The Advans Group Announces the Closing of the Sale of its Stake in Amret to Bank SinoPac, Jan. 15, 2025, <https://bit.ly/48XNE5v>.

<sup>117</sup> IFC’s approach to Responsible Exits here: <https://bit.ly/4jEbgFF>

<sup>118</sup> See, <https://bit.ly/442UaVG> and <https://bit.ly/3ZPJeyy>.

<sup>119</sup> IFC projects #37505, #41294, #44231, and #601602.

for up US\$35 million and were categorized as FI-2 and FI-3,<sup>120</sup> respectively.<sup>121</sup>

In addition, IFC’s indirect financial exposure to Amret through its stake in the global Microfinance Enhancement Facility (MEF, renamed to Global Gender Smart Fund or GGSF) and Microfinance Initiative for Asia Debt Fund (MIFA), are described below. Amret held a revolving loan portfolio with MEF from February 2012 onwards that had a value US\$13.8m when the CAO complaint was filed in 2022. At the time of this report, all loans from MEF to Amret have been repaid. MIFA has provided eight loans to Amret since April 2013, two of which remain outstanding and had an open loan portfolio of US\$5.5m at the time of the complaint.<sup>122</sup>

At the end of 2023, Amret’s loan portfolio was valued at US\$1.6 billion, managed by 4,391 employees across 150 branches, and generated a net profit of US\$27.6 million per year.<sup>123</sup> In January 2025, it reported 642,315 clients.<sup>124</sup> Amret offers personal loans of up to US\$30,000<sup>125</sup> and agricultural and MSME loans of up to US\$100,000.<sup>126</sup> With respect to non-performing loans, Amret reported a PAR30 of 3 percent at the end of 2023.<sup>127</sup> As a risk mitigation strategy, the MFI encourages customers to purchase loan repayment insurance from AIA Life Insurance to protect client families from debt in the case of death or disability.<sup>128</sup> Amret first received the SMART campaign’s client protection certification in 2016, which was most recently renewed in 2023 by CERISE+SPTF.<sup>129</sup>

### 2.1.3 Hattha Bank

In 1994, the NGO OCSF/OXFAM Quebec launched Hattha Kaksekar Limited as a food security project offering micro-loans to farmers. In 2007, Hattha Kaksekar Limited received a permanent microfinance license from the National Bank of Cambodia, in 2016 it became a wholly-owned subsidiary of Krungsri, the fifth largest bank in Thailand, and in 2020 it transitioned into Hattha Bank plc.<sup>130</sup>

Since 2015, IFC has provided Hattha Bank with nine loans to support its growth in the market, especially its lending to micro borrowers and SMEs as well as two advisory service projects<sup>131</sup> to help the institution improve resilience, develop gender finance and SME lending, and strengthen its responsible finance practices.<sup>132</sup> The CAO complaint from borrowers covers four IFC loans to Hattha Bank (projects #39167, #44211, #45535, and #44742) provided between 2017 and 2021, of which

<sup>120</sup> “FI–3: when an FI’s existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.” 2012 Sustainability Policy, para. 40.

<sup>121</sup> IFC’s Management Response (November 21, 2022), p.19.

<sup>122</sup> IFC’s Management Response (November 21, 2022) p. 20.

<sup>123</sup> Amret, Annual Report 2023, p. 6, 28-29, 31, 51, <https://bit.ly/4hDcM25>.

<sup>124</sup> See Amret, Key Figures, January 2025, <https://bit.ly/3Fprsr0>

<sup>125</sup> Amret, Personal Loan, <https://bit.ly/3Fn1NMT>.

<sup>126</sup> Amret, Agricultural Loan, <https://bit.ly/3FEtZed>; Amret, Business Loan, <https://bit.ly/41QJZRS>.

<sup>127</sup> Amret, Annual Report 2023, p. 11, <https://bit.ly/4hDcM25>.

<sup>128</sup> Amret, Loan Payment Insurance, <https://bit.ly/3DByst1>.

<sup>129</sup> Advans, Amret obtains the Gold Client Protection Certification, March 17, 2023, <https://bit.ly/43JQVCU>. In January 2023, it obtained a Gold certificate from M-CRIL, Source: <https://bit.ly/41MOqNC>

<sup>130</sup> Hattha Bank, Bank Profile, <https://bit.ly/3DuRWUJ>

<sup>131</sup> IFC projects #36242, #38239, #39167, #41223, #40898, #44211, #44742, #45996 and #45535, IFC advisory projects #602386 and #606119.

<sup>132</sup> IFC Management Response, p. 9.

only the last remains active.<sup>133</sup> These loans were to support Hattha Bank’s MSME portfolio and access to finance during the pandemic for a totaled US\$140 million with the first two categorized as FI-3 and the others as FI-2.

IFC also had indirect financial exposure to Hattha Bank through its stake in MEF, which provided multiple loans to Hattha Bank between 2010 and 2022. The most recent loan was provided in May 2019 and repaid in May 2022, with US\$3.5m outstanding at the time of the complaint.<sup>134</sup>

At the end of 2023, Hattha Bank’s loan portfolio totaled US\$1.5 billion across approximately 167,000 clients<sup>135</sup> managed by 4,665 employees across 171 branches.<sup>136</sup> The bank offers personal consumption and agricultural loans of up to US\$50,000,<sup>137</sup> and MSME loans of up to US\$300,000.<sup>138</sup> It received a SMART Certificate in 2016<sup>139</sup>, but did not renew after its expiration in 2018.<sup>140</sup> In the context of IFC’s loans in 2021 (projects #45535 and #44742), Hattha Bank underwent a responsible finance assessment between December 2021 and July 2022 (IFC advisory services project #606119) which found positive practices, but also some gaps in its policies and procedures to meet responsible finance standards, for which the assessors made timebound recommendations.

#### 2.1.4 MEF

In 2009, IFC and the German Development Bank (KfW) launched the US\$500 million, global Microfinance Enhancement Facility (MEF) which was designed to provide short-term and medium-term financing to MFIs facing funding shortfalls during the global financial crisis when some MFIs were encountering difficulty in refinancing their debt, and therefore making loans available, despite the underlying soundness of their portfolios.<sup>141</sup> IFC has an active investment in MEF. In 2009, it made a US\$150 million quasi-equity investment in MEF (project #27827), receiving a 22.2% stake in the fund.<sup>142</sup> MEF was implemented through a General Secretariat, carried out by the fund management company Innpact, and an Investment Committee comprised of independent representatives of the primary advisors. The four Investment Advisors, BlueOrchard Finance, ResponsAbility Social Investments AG, Cyrano Fund Management, and Symbiotics presented funding proposals to MEF’s investment committee. In 2019 Incofin joined in replacement of Cyrano. From 2024 onwards BlueOrchard and Symbiotics were no longer involved, and as of January 1st,

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<sup>133</sup> The first two of these loans were repaid in June 2022, while the third was repaid in July 2024.

<sup>134</sup> IFC’s Management Response (November 21, 2022) p. 20.

<sup>135</sup> Hattha Bank, Annual Report 2023, 2024, p. 2, <https://bit.ly/43lwHcM>.

<sup>136</sup> National Bank of Cambodia, 2023 Supervision Report, 2024, p. 25-26, <https://bit.ly/4iskMnQ>.

<sup>137</sup> Hattha Bank, Consumption Loans, <https://bit.ly/3FoCfPu>; Hattha Bank, Agriculture Loan, <https://bit.ly/43JSdhe>.

<sup>138</sup> Hattha Bank, SME Loan, <https://bit.ly/4bSqEEr>.

<sup>139</sup> Smart Campaign, Certified Organizations, <https://bit.ly/3DrXvn6>.

<sup>140</sup> Hattha Bank did not receive a certification under the Smart Campaign or the SPTF+Cerise Pathway after 2018, but did carry out a Client Protection Self-Assessment and joined the SPTF+Cerise Pathway of institutions committed to client protection in August 2023: <https://officecao.org/4g1B5aQ>

<sup>141</sup> IFC, 2009 Annual Report, 2009, p. 36, <https://bit.ly/3FEa6E8>. IFC, The Need for Speed: Helping the Microfinance Industry Stay Afloat in Times of Crises, March 2015, p. 1-2, <https://bit.ly/43JSL6M>.

<sup>142</sup> IFC, 2009 Annual Report, 2009, p. 36, <https://bit.ly/3FEa6E8>. IFC also had three additional projects supporting MEF, namely projects #26327, #29206, #28879. MEF was initially called the Microfinance Liquidity Facility, when first approved by the IFC Board in January 2009. By the time it began disbursements in May of that same year, its name had changed to the Microfinance Enhancement Facility (MEF). Microrate, Role Reversal Revisited: Are Public Development Institutions Still Crowding out Private Investment in Microfinance? 2011, p. 6, <https://bit.ly/4hrQuAx>.

2024, MEF was renamed to the Global Gender-Smart Fund (GGSF).<sup>143</sup> Between 2010 and 2022, MEF provided multiple loans to four financial institutions covered in this investigation – Amret, Hattha Bank, LOLC and PRASAC – all of which have since been repaid.<sup>144</sup> MEF’s investments in Amret and LOLC were managed by Cyrano and later by Incofin, while the investments in Hattha Bank and Prasac were managed by BlueOrchard and later Hattha Bank was repaid and Prasac was managed by ResponsAbility.

In January 2024, MEF was restructured into the Global Gender-Smart Fund S.A., with a mission to support provision of gender-smart and responsible financial services to underserved women, and women-owned or women-led businesses, in developing markets.<sup>145</sup>

#### 2.1.4.1 Sub-client LOLC

The charity Catholic Relief Services founded LOLC in 1994 as part of its small enterprise development program in Cambodia.<sup>146</sup> In 2003, LOLC received its MFI license from the National Bank of Cambodia,<sup>147</sup> and LOLC Asia Private Limited from Singapore currently owns 97% of the financial institution with 3% belonging to LOLC staff.<sup>148</sup>

IFC previously provided direct financial support to LOLC for its lending to MSME borrowers in the agricultural sector.<sup>149</sup> However, this case only covers IFC’s indirect financial exposure to LOLC through its equity stakes in MEF and MIFA (see section 2.1.5 below). MEF provided 19 loans to LOLC since February 2012, valued at US\$14.2 million at the time of the complaint, which were all repaid and closed by October 2024. MIFA provided six loans to LOLC between 2014 and May 2022 with an open loan portfolio of US\$9 million at the time of the complaint and three loans still active<sup>150</sup> (see section 2.1.5 below).

In 2023, LOLC’s loan portfolio had a total value of US\$1.2 billion with approximately 335,000 clients managed by 3,590 employees across 83 branches, and made a net profit of US\$65.7 million.<sup>151</sup> LOLC offers individual loans of up to US\$10,000, seasonal agricultural loans of up to US\$30,000, and MSME loans of up to US\$200,000.<sup>152</sup> In 2023, LOLC had an NPL-rate (PAR>30) of 2.1%.<sup>153</sup> In

<sup>143</sup> MEF 2023 Annual Report, pp. 1-2 <https://bit.ly/4ctdVbX>

<sup>144</sup> The last outstanding loans from MEF to these institutions were repaid in the following dates: Hattha Bank in May 2022, Amret in June 2024, PRASAC in July 2024 and LOLC is October 2024.

<sup>145</sup> Inn pact, Global Gender-Smart Fund (GGSF) Press Release, 13 June 2024, <https://bit.ly/4iQnnYv>.

<sup>146</sup> LOLC, Milestone, <https://bit.ly/422IQYK>.

<sup>147</sup> LOLC, Milestone, <https://bit.ly/422IQYK>. Between 2002 and 2015 it was call Thaneakea Phum (TPC).

<sup>148</sup> LOLC, Annual Report 2023, p. 27, <https://bit.ly/3FG1cWH>.

<sup>149</sup> In 2015, IFC provided its first and only loan thus far to LOLC which was valued at \$10 million (project #34422) and has since closed. In 2023 IFC approved the Cambodia Green Finance Advisory Service to support the NBC in developing and fostering green finance in the country. According to public reporting, LOLC is one of the three companies chosen to receive Green Financing. See: IFC Project Information & Data Portal, Cambodia Green Finance, Project Number 606763, <https://bit.ly/3DF6npi> and Dialogue Earth, Green Bonds, Red Flags: Cambodia’s Microfinance Crisis Deepens amid Sustainability Push, Cambodianess, October 20, 2024, <https://bit.ly/4hwJ2E7>.

<sup>150</sup> IFC’s Management Response (November 21, 2022) p. 11 and 20.

<sup>151</sup> LOLC, Annual Report 2023, p. 7, <https://bit.ly/3FG1cWH>.

<sup>152</sup> LOLC, Individual Loan, <https://bit.ly/3XQwr7H>, Seasonal Loan, <https://bit.ly/4ir5tvD>, LOLC, SME Loan, <https://bit.ly/4irdvon>; LOLC, Annual Report 2023, p. 36, <https://bit.ly/3FG1cWH>.

<sup>153</sup> National Bank of Cambodia, 2023 Supervision Report, 2024, p. 65, <https://bit.ly/4iskMnQ>.

2015, it became the first MFI in Cambodia to receive a SMART Campaign Certification, and was recertified in 2018<sup>154</sup> and in 2022, under the SPTF+Cerise principles.<sup>155</sup>

#### 2.1.4.2 Sub-client PRASAC

The European Union (EU) funded PRASAC’s launch in 1995 as a development project to support the agricultural sector.<sup>156</sup> By 2004, PRASAC had evolved into an MFI with a license from the National Bank of Cambodia to provide financial services to rural communities and microenterprises.<sup>157</sup> In 2021, PRASAC was purchased by Korea’s KB Kookmin Bank and transformed into the commercial KB PRASAC Bank.<sup>158</sup> Since 2012, six IFC loans have supported the expansion of PRASAC’s lending, particularly to micro borrowers. IFC exited all these loans by the time the CAO complaint was filed in February 2022,<sup>159</sup> and this case therefore only covers IFC’s indirect financial exposure to PRASAC through its quasi-equity stake in MEF. Between 2010 and 2022, MEF provided multiple loans to PRASAC, with the last one provided in July 2021 and repaid in July 2024 with US\$7.8m outstanding at the time of the complaint.<sup>160</sup>

KB PRASAC Bank’s loan portfolio in 2023 had a total value of US\$5.7 billion with approximately 548,000 clients managed by 10,224 employees across 192 branches<sup>161</sup> and a net profit of US\$87 million.<sup>162</sup> The bank offers workers loans of up to US\$5,000,<sup>163</sup> and micro and small business loans of up to US\$10,000.<sup>164</sup> In 2023, PRASAC had an NPL-rate (PAR>30) of 3.75%.<sup>165</sup> The bank obtained a SMART Campaign Certification in 2015, but appears to have lost it since November 2018.<sup>166</sup>

#### 2.1.5 MIFA

In 2012, IFC approved up to US\$20 million to help launch the Microfinance Initiative for Asia Debt Fund (MIFA) to increase access to finance for micro-borrowers and low-income households across Asia (project #31467).<sup>167</sup> MIFA’s objectives were: “(i) offer market-based debt financing [...] to financial entities serving micro businesses, with a focus on reaching smaller and less developed MFIs; ii) help establish microfinance as an asset class with mainstream investors and leverage donor funds with private capital; and iii) support capacity building among financial entities serving

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<sup>154</sup> LOLC, Annual Report 2023, p. 104, <https://bit.ly/3FG1cWH>.

<sup>155</sup> LOLC, Milestone, <https://bit.ly/422IQYK>.

<sup>156</sup> KB PRASAC Bank, Annual Report 2023, 2024, p. 13, <https://bit.ly/4265qbC>.

<sup>157</sup> KB PRASAC Bank, Annual Report 2023, 2024, p. 13, <https://bit.ly/4265qbC>.

<sup>158</sup> KB PRASAC Bank, Annual Report 2023, 2024, p. 13, <https://bit.ly/4265qbC>.

<sup>159</sup> IFC projects #32141, #33206, #34993, #37180, #36280 and #38235. See for example IFC, PRASAC Snr Loan, <https://bit.ly/4IbNiuT>.

<sup>160</sup> IFC’s Management Response (November 21, 2022) p. 11 and 20.

<sup>161</sup> KB PRASAC Bank, Annual Report 2023, 2024, p. 4, <https://bit.ly/4265qbC>.

<sup>162</sup> KB PRASAC Bank, Annual Report 2023, 2024, p. 11, <https://bit.ly/4265qbC>.

<sup>163</sup> KB PRASAC Bank, Worker Loan, <https://bit.ly/43JXPrO>.

<sup>164</sup> KB PRASAC Bank, Micro Business Loan, <https://bit.ly/4iJK6We>.

<sup>165</sup> KB PRASAC Bank, Annual Report 2023, 2024, p. 11, <https://bit.ly/4265qbC>. According to the National Bank of Cambodia, the NPL rate was 4.1% in 2023. National Bank of Cambodia, 2023 Supervision Report, 2024, p. 38, <https://bit.ly/4iskMnQ>.

<sup>166</sup> According to the Rating Agency, the Smart Campaign certification “was greyed out in November 2018”. MFR Global Rating Agency, Client Protection Certification, <https://bit.ly/3R5XLv0>.

<sup>167</sup> IFC, MIFA Debt Fund, <https://bit.ly/3DJCC6P>.

micro entities.”<sup>168</sup> MIFA is managed by BlueOrchard<sup>169</sup> and provided multiple loans to three MFIs covered in this CAO compliance investigation. These include eight loans to Amret, of which none remain outstanding, one loan to Sathapana, which remains outstanding, and six loans to LOLC (see section 2.1.4.1 above), three of which remain active.

#### 2.1.5.1 Sub-client Sathapana

In 1995, Cambodia Community Building (today Sathapana) was established as a local NGO, which later evolved into a deposit-taking MFI. In 2012, Sathapana was bought by the Maruhan Japan Bank Plc, and is currently the fifth largest commercial bank in Cambodia.<sup>170</sup> Sathapana is an IFC sub-client through MIFA, which provided one loan in July 2018 that stood at US\$3.2 million when the complaint to CAO was filed and remains outstanding as of this report’s publication.<sup>171</sup>

In 2023, Sathapana’s loan portfolio had a total value of US\$2.2 billion with approximately 600,000 clients managed by 4,600 employees across 175 branches, and generated a net profit of US\$12 million.<sup>172</sup> Sathapana offers individual and MSME loans of up to US\$200,000.<sup>173</sup> In 2023, Sathapana had an NPL-rate (PAR>30) of 7.8%.<sup>174</sup> Sathapana obtained a SMART Campaign Certification in May 2016<sup>175</sup> and additional certification in 2021 under the SPTF+Cerise social protection pathway.<sup>176</sup>

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<sup>168</sup> IFC, MIFA Debt Fund, <https://bit.ly/3DJCC6P>. IFC also had three additional projects supporting MIFA, namely projects #557985, #563832, #566607.

<sup>169</sup> BlueOrchard, is an impact investments manager with over 20 years of experience in commercial microfinance. See, <https://bit.ly/3FEafYc> and <https://bit.ly/3DBvkC9>.

<sup>170</sup> Sathapana, About Us, <https://bit.ly/41MVPwo>.

<sup>171</sup> IFC’s Management Response (November 21, 2022) p. 11 and 20.

<sup>172</sup> Sathapana Bank, Annual Report 2023, 2024, p. 5, 30-31, <https://bit.ly/3R6toED>.

<sup>173</sup> Sathapana Bank, Business Loan, <https://bit.ly/3R9AOHg>; Sathapana Bank, Personal Loan, <https://bit.ly/4iP0k0h>.

<sup>174</sup> National Bank of Cambodia, 2023 Supervision Report, 2024, p. 38, <https://bit.ly/4iskMnQ>.

<sup>175</sup> Facebook, Congratulations SATHAPANA BANK PLC get certificate from Smart Campaign, July 12, 2016, <https://bit.ly/3XQx8xP>.

<sup>176</sup> See, Cerise+SPTF, Who Is on the Pathway, <https://bit.ly/4isI5Pw>, and M-CRIL Inclusive Microeconomics, News, <https://bit.ly/3R8D7u9>.

### 3. Compliance Investigation

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This section summarizes the complaint to CAO and the process and scope of CAO’s subsequent compliance investigation into IFC’s investments in ACLEDA, Amret, Hattha Bank, Advans, North Haven Thai, MEF, MIFA, and the sub-projects of these last two funds in LOLC, Sathapana, and PRASAC. It also summarizes IFC’s response to the complaint and the IFC environmental and social (E&S) policies, procedures, and requirements applicable to this case and therefore relevant to CAO’s analysis.

#### 3.1 Complaint

In February 2022, CAO received a complaint from two NGOs—the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC)—on behalf of a group of 18 individuals who had borrowed from one or more of the six financial institutions referenced above. The complaint raised concerns about social impacts of the lending and collection practices of six financial institutions and banks operating in the country.<sup>177</sup>

Out of fear of reprisals, they requested that CAO keep their identities confidential.<sup>178</sup> Further information about the individual issues experienced by each complainant household is provided in confidential annex shared with the relevant parties.

The complainants allege that they, their families, and their communities have been harmed by the lending and collection practices of the MFIs and commercial banks, and pressured into selling their assets to repay loans. They claim lenders did not provide them with sufficient information to assess the consequences of entering loan agreements, including a lack of information in Indigenous languages.

The complainants argue that a combination of high market penetration, high saturation, lack of consumer protection, and insufficient government enforcement of existing laws has fueled aggressive, deceptive, and predatory tactics by microfinance institutions and bank loan officers. They allege it is a common practice for lenders in Cambodia—including those cited in the complaint—to expand their business by offering outsized loans to micro, small, and medium enterprises, sometimes repeatedly and for increased amounts, without fully assessing borrowers’ ability to repay. When borrowers miss a payment by even a few days, the complainants allege that microfinance lenders often employ coercive extrajudicial collection tactics such as harassing borrowers at home, threatening to bring them before local authorities, pressuring them into borrowing more to be able to repay, selling the land they offered as collateral, and suggesting they take children out of school to work to repay loans, rather than pursuing collection through the legal process.

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<sup>177</sup> The six Cambodian BFIs whose practices are the subject of the complaint are, ACLEDA, Amret, Hattha Bank, Prasac, LOLC and Sathapana. The seven direct IFC clients relevant to the case are ACLEDA, Amret, Hattha Bank, MEF, MIFA, North Haven Thai, and Advans.

<sup>178</sup> A redacted version of the complaint is annexed to the appraisal report in Appendix 4 and published on CAO’s case webpage here: <https://bit.ly/3B16eHG>

The complainants argue that IFC has repeatedly failed both to conduct adequate due diligence of its investments in these financial institutions and to supervise them when active, as required by the IFC Sustainability Policy. Specifically, they allege that IFC did not adequately supervise the Environmental and Social Management Systems (ESMS) of microfinance provider clients, which they describe as “clearly inadequate to address the predatory and deceptive loan practices, irresponsible lending [...], and coercion and threats from loan officers”. They allege that this lack of proper project due diligence and supervision enabled the associated social harms against complainants, their families, and their communities “to continue unabated in clear contradiction with IFC’s Performance Standards”.

The borrowers also allege that IFC transparency regarding investments in financial intermediaries (FIs) is limited, insufficient, and contrary to IFC’s Access to Information Policy. They argue that IFC disclosures on financial intermediary (FI) projects such as those subject to the complaint provide little and inconsistent information regarding the ESMS, related E&S assessments, and the Environmental and Social Action Plan (ESAP) agreed between IFC and client, as well as IFC’s subsequent project supervision.

Due to such practices and omissions, the complainants allege that they have suffered the following negative impacts, in violation of IFC’s E&S policies:

- **Loss of Land:** The complainants allege that microfinance lenders routinely ask them to put up their land—including Indigenous communal land—as collateral for loan approval and then force them into premature sales of the land for collection. They claim that lenders are more interested in securing land titles than in a borrower’s ability to repay a loan. They state that not only do microfinance institutions physically keep the land titles but they also often require borrowers to deposit multiple titles beyond the loan’s value to prevent them from using land titles to secure loans from another institution. According to the complainants, lenders coerce them to sell their land outside the legal procedures in place to collect collateral and without sufficient prior information. According to the complainants, MFIs take advantage of borrowers’ ignorance of the legal process and their rights to imply that late repayment will bring additional consequences and to threaten recourse to local authorities.
- **Livelihood Impacts:** The complainants state that they have had to sell not only their lands but also assets and equipment used to generate their livelihood, and other sources of income to repay debts to lenders. As a result, their sources of income have diminished, and they are struggling to meet basic needs such as food and shelter, with consequences on nutrition and health, in order to meet loan payments.
- **Impacts on Education, Health and Families:** The complainants include households that have had to remove their children from school due to their inability to pay for education costs and the need for their children to work and contribute to debt payments. Some families also report having migrated, or needing their children to migrate, in order to generate additional income to repay loans. In addition, the complainants highlighted public reports of an increase in debt-related suicides in Cambodia due to the over-indebtedness crisis.

- **Impacts on Indigenous Peoples:** Some complainants are members of Indigenous communities. They allege that lenders have often accepted Indigenous land as collateral, which is later sold to non-members of the community, violating Indigenous people’s rights, and affecting cultural identity, traditions, and livelihoods. According to the complainants, lenders often incentivize Indigenous community members to seek individual soft land titles<sup>179</sup> and discard their communal titles in order to secure loans.
- **Threats and reprisals:** The complainants expressed fear of reprisals from microloan providers and local authorities, stating that loan officers often resort to threats, intimidation, and harassment. The NGOs representing complainants also report being threatened with legal action and accused of incitement by some MFIs named in the complaint.

The complainants state that IFC has been aware of publicly available information regarding widespread social harms and inadequate consumer protections in Cambodia’s microfinance sector since at least 2016 yet approved additional financing and classified the new projects as low risk. They argue that, despite these escalating social harms, there is no indication that IFC reassessed the commitment or capacity of its FI clients to conduct day-to-day management of projects with high social risks and impacts before approving additional investments.

They further allege that IFC does not properly supervise the business activities of microfinance clients since these clients are not required to screen their lending activities for E&S risks and resulting harms to borrowers. The complaint describes this gap in E&S supervision as significant since microfinance borrowers often belong to vulnerable populations and thus require more protection and monitoring to ensure that IFC projects do not have harmful social impacts.

### 3.2 CAO Assessment

In April 2022, CAO found the complaint eligible and started its assessment.<sup>180</sup> Since there was no consensus for a CAO-supported dispute resolution process, and with the complainants’ consent, the case was transferred to CAO’s compliance function on November 11, 2022, to conduct a compliance appraisal.<sup>181</sup>

### 3.3 IFC Response

IFC’s Management Response to the complaint maintains that, while the alleged harms outlined in the complaint are serious, they are not the result of non-compliance with IFC’s E&S policies.<sup>182</sup>

According to IFC Management, impacts of microfinance lending on borrowers fall outside the scope

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<sup>179</sup> The term *soft land titles* refers to the practice in Cambodia of local authorities issuing certifications of land ownership which are then traded outside the formal cadastral system.

<sup>180</sup> The CAO assessment process provides a neutral platform for parties to understand the issues, explore options, and decide whether to pursue dispute resolution or compliance processes" (CAO Policy, 2021, para. 76).

<sup>181</sup> CAO Assessment Report on Concerns in Relations to IFC Projects and Subprojects in Cambodia regarding 7 Financial Institutions and 3 Funds, November 2022, <https://bit.ly/3Vu62LH>

<sup>182</sup> See the IFC Management Response from November 21, 2022 in Appendix 5 of the Compliance Appraisal of Complaint Regarding IFC’s Exposure to six Microfinance Institutions in Cambodia (ACLEDA, Amret, Hattha Bank, PRASAC, LOLC, and Sathapana), June 13, 2023, <https://bit.ly/424plcQ>.

of IFC’s E&S Policies, for the following reasons:<sup>183</sup>

- a) Consumers of a client’s products are not referenced in the Sustainability Policy or Performance Standards as a category of stakeholder to which E&S risk mitigation measures should apply.
- b) The Sustainability Framework applies to potential E&S risks and impacts of the supported “business activity” on the “surrounding community and workers”, but it does not apply to the E&S impacts on sub-clients (in this case, microfinance borrowers).
- c) The business activity that IFC supports through FI clients is not microfinance lending itself, but rather the activity that results from the use of those loans by microfinance borrowers (for example, small-scale agriculture or trading activities such as a convenience store).
- d) IFC addresses issues related to client lending and collection practices through its responsible finance framework and as part of its broader financial due diligence processes, not within the Sustainability Framework.

In addition, IFC explains that it has worked at institutional and sectoral levels to strengthen responsible finance practices in Cambodia.

At the institutional level, these activities include working with financial intermediaries that have responsible lending practices, assessing their underwriting and collection practices during due diligence processes, and monitoring the evolution of these practices through portfolio supervision.<sup>184</sup> In addition, IFC has provided advisory services to some of the FIs named in this complaint, helping them improve their corporate governance, risk management capacity, and responsible finance practices. In April 2021, IFC launched a responsible finance initiative to assess Cambodian FI clients’ responsible finance practices and assists them in making time-bound improvements.<sup>185</sup>

At the sectoral level, IFC states that it has worked with the National Bank of Cambodia (NBC) since 2006 to build the Credit Bureau Cambodia (CBC) as a source of transparency and information for credit reporting as well as a tool to reduce the risk of borrower over-indebtedness. In addition, IFC

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<sup>183</sup> CAO’s appraisal report responds to these points and determined that a compliance investigation was warranted. IFC requested a Board review of CAO’s appraisal report, based on its position that the impacts on microfinance borrowers are not covered by the E&S Policies. The request was discussed in a meeting of the Board’s Committee of Development Effectiveness (CODE) on July 21, 2023. On July 28, 2023 IFC withdrew its request for a Board review. See: CAO, Compliance Appraisal of Complaint Regarding IFC’s Exposure to six Microfinance Institutions in Cambodia (Acleda, Amret, Hattha Bank, Prasac, LOLC, and Sathapana), June 13, 2023, pp. 24-29, <https://bit.ly/424plcQ>; IFC Management, Request for Board Review on decision to investigate the Complaint Regarding IFC’s Exposure to six Microfinance Institutions in Cambodia (ACLEDA, Amret, Hattha Bank, PRASAC, LOLC, and Sathapana), June 29, 2023, <https://bit.ly/3XU2nIr>, and CAO’s case webpage here: <https://bit.ly/4mDvNFs>

<sup>184</sup> In this regard, IFC indicated it incorporated affirmative covenants in loan agreements of clients involved in this complaint to require compliance with Client Protection and Responsible Finance Principles, covering avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, grievance redress mechanism, and/or data privacy protection. In its Management Response, IFC indicated it included affirmative covenants on Client Protection and Responsible Finance Principles in its direct loans to Prasac in 2015 and 2016 (projects number 36280 and 38235), ACLEDA (project number 34386), HTB (project numbers 44742 and 45535), Amret (project numbers 37505 and 44231) as well as in its equity investment in MEF (project number 27827) and MIFA (project number 31467). See IFC’s Management Response (November 21, 2022), p.5, <https://bit.ly/424plcQ>

<sup>185</sup> Advisory Services Cambodia RF #606119.

has collaborated with the Cambodian Microfinance Association (CMA), the CBC, and the SMART Campaign to promote microfinance lending guidelines, and implemented an insolvency and debt resolution project to strengthen fair and transparent debt collection practices in Cambodia more generally.

IFC’s response states its commitment to reviewing and addressing the issues raised in the complaint, along with other relevant stakeholders including the World Bank, NBC, CMA, the Association of Banks in Cambodia and other multilateral financial institutions. While insisting these issues are outside the Sustainability Framework, IFC proposed conducting activities at the project, sector, and regulatory levels. According to IFC, these would address “project-specific irregularities” alleged by the complainants, the risk of reprisals, IFC’s approach to responsible finance, and financial consumer protection regulation in Cambodia.<sup>186</sup>

None of the IFC clients provided CAO with a written response to the complaint during the compliance appraisal stage.<sup>187</sup>

### 3.4 CAO Appraisal

On June 13, 2023, CAO completed its appraisal concluding that complainants’ allegations merited a compliance investigation.<sup>188</sup> The appraisal took into account the materials provided by the complainants, and IFC, including the Management Response, as well as other information. On June 29, 2023, IFC Management submitted a request for a Board review of CAO’s decision to investigate.<sup>189</sup> Following the CAO Policy (para. 107-111), the Board had 10 working days to consider IFC’s request. On July 14, 2023, the Board extended the review period to July 28, 2023. However, on July 28, 2023, IFC withdrew its request for a Board review of CAO’s decision to investigate, and thus CAO opened this investigation on August 1, 2023.

### 3.5 Scope of investigation

CAO’s compliance mandate is to carry out reviews of IFC’s compliance with its E&S policies, assess related harm, and recommend remedial actions where appropriate. (See Annex C for a summary of

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<sup>186</sup> More information on the IFC proposed actions can be found in page 6 of Annex 5: IFC Management Response of the CAO Compliance Appraisal, available here: <https://officecao.org/45vKqmw>. CAO concluded that these proposed activities did not constitute a statement of remedial actions and did not substantively address the issues raised in the complaint. See: CAO Compliance Appraisal, pp.34-35.

<sup>187</sup> When a case is transferred to the Compliance function, the CAO Policy gives IFC clients an opportunity to respond in writing to the issues raised in the complaint within the 10 Business Days from the date of transfer. CAO Policy, para. 87.

<sup>188</sup> CAO, Compliance Appraisal of Complaint Regarding IFC’s Exposure to six Microfinance Institutions in Cambodia (ACLEDA, Amret, Hattha Bank, Prasac, LOLC, and Sathapana) (IFC Project Numbers: #21856, #27827, #31467, #34748, #38609, #39167, #41294, #42480, #44211, #44231, #44742, #44882, #45535), June 13, 2023, available at: <https://bit.ly/45muCUR>

<sup>189</sup> IFC Management Request for Board Review (Withdrawn), June 29, 2023, available at: <https://bit.ly/3XU2nI>. IFC Management maintained its position that adverse impacts on borrowers and consumer protection standards were outside the scope of IFC’s E&S Policies, and therefore IFC considered it outside the scope of CAO’s mandate. IFC indicated it supports its clients and sub-clients in progressively developing and strengthening responsible lending practices through financial due diligence and monitoring and Advisory Services—broader IFC socioeconomic programs, strategies, and tools for risk management in the financial sector—which they believed to be outside CAO’s mandate. CAO acknowledges and considers IFC’s separate approach to consumer protection in microfinance investments when examining IFC’s compliance with its E&S policies in section 4 of this report.

the CAO compliance investigation process). CAO will include, where appropriate, an assessment of whether IFC has deviated in a material way from relevant directives and procedures.<sup>190</sup> CAO’s investigation was carried out between August 2023 and June 2025 with a draft report sent to IFC and complainants for factual review and comment on June 13, 2025. CAO’s final report takes into consideration the parties’ comments on the draft report.

This report documents the compliance investigation findings concerning IFC’s compliance, non-compliance, and any related harm to the complainants. It also includes CAO’s conclusions about the underlying causes of the non-compliance identified and recommendations for IFC to consider in developing a Management Action Plan to remediate project and sub-project-level non-compliance and related harm, and take institutional steps to prevent future non-compliance.<sup>191</sup>

Terms of Reference (TOR) from June 2023<sup>192</sup> set out the following questions for this investigation to answer:

1. Whether IFC has complied with its E&S Policies, including:
  - a. Whether IFC conducted a pre-investment E&S review (ESDD) of its investments in ACLEDA, Amret, Hattha Bank, Advans, North Haven Thai, MEF, and MIFA, as required by the Sustainability Policy, that was commensurate to the risks and impacts of these investments on the MSME borrowers (sub-clients in these investments)
  - b. Whether IFC put in place contractual provisions requiring the clients named above to meet Cambodian national law, the IFC Exclusion List, and the IFC Performance Standards, as relevant to each investment, regarding risks and impacts on the MSME borrowers
  - c. Whether IFC has supervised its investments in ACLEDA, Amret, Hattha Bank, Advans, North Haven Thai, MEF, and MIFA to ensure they comply with the requirements of the Sustainability Policy, Performance Standards, IFC Exclusion List, and national law as relevant to each investment, regarding risks and impacts on the MSME borrowers.
2. Whether the harms and potential harms raised by the complainants are related to any IFC non-compliance.<sup>193</sup>

In considering findings on harm and whether any harm is related to IFC non-compliances, CAO will assess IFC’s review and supervision of its E&S requirements under the Sustainability Policy and the Access to Information Policy. CAO will consider the E&S performance of projects and sub-projects named in the complaint, including their application of Performance Standard 1 (Assessment and Management of Environmental and Social Risks and Impacts), Performance

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<sup>190</sup> CAO Policy, paras. 76, 112.

<sup>191</sup> CAO Policy, para. 113.

<sup>192</sup> Terms of Reference for the Compliance Investigation: Cambodia: Financial Intermediaries-04, available here: <https://bit.ly/42547B5>.

<sup>193</sup> CAO Policy, paras. 112-114.

Standard 7 (Indigenous Peoples), and the IFC Exclusion List as relevant.<sup>194</sup>

### 3.6 Investigation methodology

The CAO investigation team comprised CAO staff, a Khmer and Indigenous language interpreter, and three external expert consultants:

- A social and environmental specialist with more than 30 years of experience in assessing and managing E&S issues in financial intermediaries, microfinance, and MSMEs in more than 70 countries. This consultant reviewed all aspects of the complaint.
- An advisor with extensive experience of the Cambodian microfinance sector including market analysis and client protection, who has previously reviewed and advised MFIs, regulators, investors and investment managers, networks, and support organizations on the microfinance industry.
- A local social scientist with knowledge and experience in qualitative social impact assessments in Cambodia, particularly related to microfinance, who is fluent in Khmer and has expertise and experience in the Cambodian context.

This investigation report was prepared on the basis of:

- A review of IFC project documentation and other materials provided by IFC, the clients, and sub-clients.
- A review of publicly available documentation about the Cambodian financial market, particularly in relation to microfinance; social impacts and over-indebtedness in Cambodia; clients and sub-clients; and industry standards, initiatives, and information.
- Interviews with 36 IFC staff members involved in the projects or with relevant information regarding the case issues, client and sub-client staff in headquarters and branch offices, the complainants, Cambodian government officials, and a wide range of additional stakeholders.

CAO carried out a three-week site visit to Cambodia in March-April 2024. The field team met and interviewed each of the 18 households submitting this complaint. The team also met with headquarters and branch staff of all six financial institutions. In addition to in-person meetings with senior management, CAO visited eight branches, interviewing 28 branch managers, loan officers, and recovery officers, and conducting on-site loan reviews.<sup>195</sup> CAO received significant amounts of documentation and information from the clients and sub-clients in relation to the issues raised. To ensure a comprehensive and balanced consideration of IFC’s clients’ and sub-clients’ policies and

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<sup>194</sup> CAO Policy, para.77. <sup>195</sup> Selection:

<sup>195</sup> Selection:

- 2 provinces selected based on complaint and location
- 8 branches selected on basis of diversity of performances of branches and protection of complainants’ identities
- Staff in each branch selected: 1 branch manager; 1 loan officer (top /average/low performance); 1 recovery officer and some specific staff in case of branch specificity

practices, as is standard and recommended by GIIP when assessing microfinance policies,<sup>196</sup> CAO conducted individual telephone interviews with 30 randomly selected borrowers—five from each of the six financial institutions involved in the complaint—in addition to the individual interviews with the 18 complainants’ households. All borrowers interviewed by CAO were clients of IFC’s clients and sub-clients involved in this compliance investigation. The 30 randomly selected borrowers were chosen from lists provided by IFC clients and sub-clients, and included borrowers at different stages of repayment (including those that were repaying on time, those who had repaid late but by less than 30 days, and those who had repaid late by 30 days and more).

CAO also met with 12 NGOs and local CSOs, community representatives, and non-complainant borrowers referred by CSOs<sup>197</sup>; UN representatives; five sector institutions; two national authorities; and 13 industry experts and academics.

In considering IFC’s E&S performance, relevant evidence is required to afford a reasonable basis for CAO’s compliance findings and conclusions. As required by the CAO Policy,<sup>198</sup> this report does not include any findings or conclusions deduced with the benefit of hindsight. Instead, CAO has assessed whether there is evidence that IFC applied relevant E&S requirements, considering the sources of information available at the time decisions were made.

### **3.7 Applicable IFC policies, standards, and practices for microfinance investments**

CAO determined IFC’s obligations in the case of microfinance clients and investments by examining (1) applicable IFC E&S policies, (2) relevant regulation in Cambodia, and (3) good international industry practice (GIIP) employed in the sector. This section provides a summary of CAO’s analysis.

#### **3.7.1 Applicable IFC policies**

IFC has been involved in the investments in this case since the 2004 Advans loan due diligence to the present. IFC’s policies have evolved during this period, with the result that the environmental and social (E&S) policies and requirements applicable to the investments named in the complaint varied over time.

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<sup>196</sup> It is standard and recommended practice to interview a random sample of clients when examining the lending and collection practices of microfinance providers to crosscheck adherence to GIIP through client interviews and not only rely on the written policies or interviews with client staff. This is also particularly relevant in regard to preventing over-indebtedness and the clients’ duty to monitor and respond to any heightened over-indebtedness risk. See, among other guidance: SPTF+Cerise, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Dimension 4.A and 4B on Client Protection, <https://bit.ly/3FqgZ5L> ; Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, p. 13, <https://bit.ly/4kw6Dao>, and Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, p.19, <https://bit.ly/41RDorH>

<sup>197</sup> In person interviews (8) and focus groups (4) with non-complainant borrowers referred by the CSOs involved in this complaint on subject-specific issues. All were borrowing from IFC clients and sub-clients.

<sup>198</sup> CAO Policy, para. 116.

### 3.7.1.1 *Applicable IFC policies before 2006*

IFC’s due diligence in 2004 and supervision of Advans between 2005 and April 30, 2006,<sup>199</sup> was governed by IFC’s Operational Policies (OP) of July 2, 1998, especially OP 4.01 (Environmental Assessment 1998) governing IFC’s E&S risk management process. This safeguard policy, alongside the applicable ESRP, the IFC Exclusion List, and IFC’s Disclosure Policy 1998, and other specific safeguards policies, such as that on Indigenous People, formed the sustainability framework at the time.

These policies and procedures required IFC to undertake an environmental assessment of all planned investment’s E&S impacts.<sup>200</sup> IFC’s Environmental and Social Review Procedures (ESRP) governing projects at the time described this assessment as a “flexible process”, where “[t]here is no fixed inventory of issues to be examined [...]; instead, the Bank’s procedure relies on screening, [...] and discussions between Bank and borrower, [...] consultation with affected groups and local NGOs at an early stage to ensure that all significant environmental [and social] issues are covered.”<sup>201</sup> In circumstances “Where projects have the potential to result in significant and diverse social impacts, IFC will collect information on the potential social impacts of the proposed project and consider these issues as part of its project appraisal process.”<sup>202</sup> IFC appraisal of financial intermediary projects, also required that IFC review the adequacy of the proposed FI’s E&S arrangements for subprojects, including the mechanisms and responsibilities for E&S screening and review, and verification that the FI will be capable of and committed to meeting IFC requirements.<sup>203</sup> IFC monitoring was done through annual performance reports, supervision missions, and project and sub-project site visits with a focus on the client’s E&S management system, training, and risk management tools.<sup>204</sup>

### 3.7.1.2 *IFC Sustainability Policy obligations after 2006*

IFC updated its Sustainability Framework in 2006 and again in 2012. Both frameworks consist of a Policy on Environmental and Social Sustainability (the Sustainability Policy), which sets out IFC’s obligations, and related Performance Standards, which establish the client’s obligations.

IFC’s initial credit review and supervision of the MEF investment, conducted between 2009 and

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<sup>199</sup> In April 2006, IFC’s first Sustainability Policy was issued.

<sup>200</sup> OP 4.01, indicated that the environmental assessment process (EA) is a process whose breadth, depth, and type of analysis depend on the nature, scale, and potential environmental impact of the proposed project, which takes into account the natural environment and social aspects and considers natural and social aspects in an integrated way, together with economic, financial, institutional, social, and technical analyses of a proposed project, as well as considers country context and overall policy framework, and the project sponsor’s E&S capacity. “The requirements for FI operations are derived from the EA process [...]. The EA process takes into account the type of finance being considered, the nature and scale of anticipated subprojects, and the environmental requirements of the jurisdiction in which subprojects will be located. OP 4.01, para. 1-3.

<sup>201</sup> IFC OP 4.01, indicates that “Additional information related to this OP is provided in World Bank 1991: Environmental Assessment Sourcebook”. The World Bank 1991: Environmental Assessment Sourcebook indicates the above text, and that “Environment” is to be defined “broadly [...] as ‘the natural and social conditions surrounding all mankind, and including future generations’”: Volume 1, p. 11 See also IFC 1998 ESRP, p.8, para. 17 on the requirements of social review during the EA process. <https://bit.ly/4mXGHWE>.

<sup>202</sup> IFC 1998 ESRP, 1998, p. 8.

<sup>203</sup> IFC OP 4.01, para. 10, and IFC 1998 ESRP, 1998, p. 10, 12-13, Annex F.

<sup>204</sup> IFC 1998 ESRP, p. 33, Annex F, para. 10-12.

2012,<sup>205</sup> was governed by IFC’s 2006 Sustainability Policy,<sup>206</sup> 2006 Performance Standards (PS),<sup>207</sup> and Access to Information Policy (AIP)<sup>208</sup>. IFC’s 2012 Sustainability Policy,<sup>209</sup> Performance Standards (PS),<sup>210</sup> the IFC Exclusion List and the Access to Information Policy (AIP),<sup>211</sup> together referred to as the Sustainability Framework, apply to the E&S due diligence of the remaining investments in this case, as well as all E&S supervision after 2012.

Both the 2006 and 2012 IFC Sustainability Policies state that “efforts to carry out investment and advisory activities with the intent to ‘do no harm’ to people and the environment” and “to enhance the sustainability of private sector operations and the markets they work in” are “central to IFC’s development mission.”<sup>212</sup> They also commit IFC to ensure that “the costs of economic development do not fall disproportionately on those who are poor or vulnerable”,<sup>213</sup> and “seek to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards.”<sup>214</sup>

IFC’s commitments under both the 2006 and 2012 Sustainability Policies are carried out through three stages of the project cycle:<sup>215</sup>

- *Due diligence*: IFC’s environmental and social due diligence is integrated into IFC’s overall due diligence of the business activity under consideration. This includes the review of E&S risks along with the review of financial and reputational risks.<sup>216</sup> The pre-investment E&S due diligence must be commensurate to the risks and impacts of the potential client’s business activity and according to the nature and scope of the project.<sup>217</sup> For FI clients, this includes reviewing the existing portfolio and prospective business activities to identify those that could expose IFC and its client to risks, and defines requirements for managing these risks proportional to the level of risks.<sup>218</sup> The 2012 Policy instructs IFC to review “the implementation capacity of FIs as well as their ESMS, as required by Performance Standard 1.”<sup>219</sup> For FIs providing project finance, IFC’s E&S requirements must include “the Performance Standards where the activity financed presents significant social or environmental risks.”<sup>220</sup> In all cases, FIs are required to establish and maintain a Social and

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<sup>205</sup> IFC’s 2012 Sustainability Framework was applicable from January 1, 2012 onwards.

<sup>206</sup> IFC, “International Finance Corporation’s Policy on Social and Environmental Sustainability,” IFC (April 30, 2006), para. 8, <https://bit.ly/4fy6hgP>

<sup>207</sup> IFC. 2006 Performance Standards. Available at: <https://bit.ly/4nlUqXR>

<sup>208</sup> IFC. 2006. Disclosure of Information Policy. (April 2006).

<sup>209</sup> IFC, “International Finance Corporation’s Policy on Environmental and Social Sustainability,” IFC (January 1, 2012), <https://bit.ly/40TvFTI>.

<sup>210</sup> IFC. 2012. Performance Standards. Available at: <https://bit.ly/3HKcGd6>

<sup>211</sup> IFC. 2012. Access to Information Policy. Available at: <https://bit.ly/42zRGep>

<sup>212</sup> 2006 Sustainability Policy, para. 8, and 2012 Sustainability Policy, para. 9.

<sup>213</sup> 2012 Sustainability Policy, para. 9, and 2006 Sustainability Policy, para. 8.

<sup>214</sup> 2012 Sustainability Policy, para. 3 and 7, and 2006 Sustainability Policy, para. 5 and 8.

<sup>215</sup> 2012 Sustainability Policy, paras. 19, 20, 21, 22, 24, 32, 33, 34, 35, 40 and 45, and for the MEF investment, 2006 Sustainability Policy, paras. 13-18, 26 and 27-29.

<sup>216</sup> 2012 Sustainability Policy, para. 21, and 2006 Sustainability Policy, para. 16.

<sup>217</sup> 2012 Sustainability Policy, para. 19-22, and 2006 Sustainability Policy, para. 13.

<sup>218</sup> 2012 IFC Sustainability Policy, para 35, and 2006 IFC Sustainability Policy, para 28.

<sup>219</sup> 2012 IFC Sustainability Policy, para 34.

<sup>220</sup> 2006 IFC Sustainability Policy, para. 28, and 2012 IFC Sustainability Policy, paras. 33 and 35.

Environmental Management System to ensure that their investments meet IFC’s requirements.<sup>221</sup>

- **Commitment:** Based on the ESDD, IFC defines requirements for the client to manage the risks identified.<sup>222</sup> These E&S requirements should be included in the investment agreement which sets conditions for IFC’s investment.<sup>223</sup> The 2012 Sustainability Policy acknowledges that microfinance entails specific E&S risks<sup>224</sup> and that FI clients must:
  - Develop and operate an Environmental and Social Management System (ESMS) that incorporates relevant principles of Performance Standard 1 and is commensurate with the E&S risks in the FI’s portfolio. The management system should be used “to carry out individual transaction appraisal and monitoring as well as overall portfolio management in accordance with the E&S risk profile of its activities and that of individual transactions”.<sup>225</sup>
  - Apply the IFC Exclusion List and relevant national law.
  - Apply Performance Standard 2 requirements to their workers.
  - Apply relevant PS requirements for higher risk business activities they support in FI investments with moderate to high E&S risks (Category FI-1 and FI-2).<sup>226</sup>
- **Supervision:** For the lifetime of the investment, IFC supervises the client’s compliance with E&S commitments in the binding investment agreements and any additional commitments in project E&S Action Plans (ESAP), as well as the FI’s performance in implementing its ESMS.<sup>227</sup> If the client fails to comply with these E&S commitments, IFC must “work with the client to bring it back into compliance to the extent feasible, and if the client fails to reestablish compliance, exercise remedies when appropriate”.<sup>228</sup> The 2012 Sustainability Policy also requires IFC to support the capacity development of FI clients to assess and manage the E&S risk of their investments.<sup>229</sup>

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<sup>221</sup> 2006 IFC Sustainability Policy, para. 29; see also, IFC Sustainability Policy 2012, paras. 33 and 35.

<sup>222</sup> 2012 IFC Sustainability Policy, para 35, and 2006 IFC Sustainability Policy, para 28.

<sup>223</sup> 2012 IFC Sustainability Policy, para 24, and 2006 IFC Sustainability Policy, para 26.

<sup>224</sup> IFC’s FI clients are engaged in a diverse range of activities consisting largely of medium and small enterprise finance, microfinance, leasing, trade finance, guarantees, housing finance, consumer finance, and in some cases corporate and project finance and equity, each with its own environmental and social risk profile” (IFC Sustainability Policy 2012, para 32).

<sup>225</sup> IFC Sustainability Policy 2012, para 33 and 35. For the MEF investment, approved under the 2006 Sustainability Policy this is similarly required in para. 29.

<sup>226</sup> IFC Sustainability Policy 2012, para 35. For investments categorized FI-3 (minimal or no adverse E&S impacts), the SP only requires that the ESMS consist of a screening of business activities they support against IFC Exclusion List and national law. In this case, 6 out of the 9 direct investments in MFIs were categorized as FI-2, and 3 as FI-3. All direct clients have at least one FI-2 investment in which IFC should have reviewed their ESMS, taking into account the relevant principles of PS1, while most of all fund investments were categorized as FI, under previous policies, and North Haven Thai as FI-2. MIFA seems to have been miscategorized as FI only – even though it was approved under the 2012 Sustainability Policy.

<sup>227</sup> 2006 IFC Sustainability Policy, para. 26 and 28; 2012 IFC Sustainability Policy, paras. 24, 32-35. and 45.

<sup>228</sup> 2012 IFC Sustainability Policy, paras. 24 and 45, and 2006 IFC Sustainability Policy, para 26.

<sup>229</sup> 2012 IFC Sustainability Policy, para 33.

### 3.7.1.3 IFC Performance Standards relevant to client microfinance activities

IFC’s Performance Standard 1, Performance Standard 7, and the Exclusion List together address social risks and impacts of microfinance on vulnerable people that are relevant to the allegations of harm made by complainants in this case.<sup>230</sup> In the context of this investigation, reference to vulnerable people is made to those who are socio-economically disadvantaged due to their low income status, low level of general literacy, and financial and legal literacy specifically, and are at risk for impoverishment.

- Performance Standard 1 (PS1): (Assessment and Management of Environmental and Social Risks and Impacts) requires the client to:
  - Establish and maintain an ESMS that incorporates a process for identifying E&S risks and impacts associated with the business activity IFC is supporting as well as management programs to mitigate identified risks and impacts.<sup>231</sup> The scope of this identification process and resulting establishment of adequate prevention and mitigation measures should be consistent with good international industry practice (GIIP).<sup>232</sup> Clients must consider all relevant E&S risks and impacts, including those covered in IFC’s Performance Standards 2 through 8 (such as those related to Indigenous People in Performance Standard 7) and they must identify populations that are likely to be affected by those E&S risks and impacts and include differentiated measures in the ESMS so that adverse impacts do not fall disproportionately on disadvantaged or vulnerable individuals or groups (PS1, paras. 7, 12, and 13).<sup>233</sup>
  - Establish a grievance mechanism to receive, respond to, and facilitate the resolution of affected communities’ concerns and grievances about the client’s E&S performance.<sup>234</sup>
- Performance Standard 7 (PS7 Indigenous Peoples) and the IFC Exclusion List both require the client to identify and avoid adverse impacts on Indigenous Peoples (IPs). Relevant to this case, the Exclusion List states that clients should not provide microfinance for any activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without the full documented consent of such peoples, while PS7 additionally

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<sup>230</sup> CAO’s appraisal determined that PS2, PS4 and PS5 were not applicable to the impacts alleged in this case, which would generally be addressed under PS1 rather than the other specific PS in the context of microfinance-related investments. CAO, Compliance Appraisal of Complaint Regarding IFC’s Exposure to six Microfinance Institutions in Cambodia (Acleda, Amret, Hattha Bank, Prasac, LOLC, and Sathapana) (IFC Project Numbers: #21856, #27827, #31467, #34748, #38609, #39167, #41294, #42480, #44211, #44231, #44742, #44882, #45535), June 13, 2023, available at: <https://bit.ly/441BhBz>

<sup>231</sup> The ESMS will incorporate the following elements: (i) policy; (ii) identification of risks and impacts; (iii) management programs; (iv) organizational capacity and competency; (v) emergency preparedness and response; (vi) stakeholder engagement; and (vii) monitoring and review. 2012 IFC Sustainability Policy, para. 5

<sup>232</sup> See sections 3.7.2, 3.7.3, and Annex B for the development over the last two decades of GIIP regarding responsible finance practices to prevent and mitigate harm to poor and vulnerable borrowers.

<sup>233</sup> In the case of the MEF investment, the similar 2006 PS1 would be the performance standard applicable during the ESDD, which also establishes the requirements for an ESMS, that incorporate processes for E&S assessments that consider all relevant social and environmental risks and impacts of the project, as well as applicable laws and regulations, and the need for differentiated measures for disadvantaged and vulnerable groups. 2006 PS1, para. 3, 4, 8 and 12.

<sup>234</sup> 2012 PS1, para. 35. For the MEF investment, the applicable provision would be in the 2006 PS1, para. 23.

requires that IFC clients engage with IPs in a culturally appropriate manner<sup>235</sup> (PS7, paras. 8, 9<sup>236</sup>, and the IFC Exclusion List).

In examining IFC’s compliance with its E&S policies, CAO has taken into consideration IFC’s position that it currently applies its E&S policies without considering the potential adverse impacts of microfinance on borrowers and their families.<sup>237</sup> At the same time, CAO has also considered the text and purpose of the E&S policies. Particularly, CAO takes into account that the adverse social impacts alleged by complainants in this case are those that IFC’s Sustainability Framework seeks to prevent or mitigate (e.g., loss of land and decrease in incomes with subsequent impacts on livelihood on poor and vulnerable households, loss of identity and natural resource-based livelihoods for Indigenous Peoples). Further, as explained above, there are specific requirements relevant to these types of impacts on IFC-financed projects in the Sustainability Policy, PS1, PS7, and the IFC Exclusion List. In addition, the Sustainability Framework applies to all IFC projects and their full scope of E&S risks and impacts, including any “unique impacts” not specifically mentioned in the policies, “unless specifically excluded”.<sup>238</sup>

CAO notes that there is no exclusion or limitation in the application of IFC’s Sustainability Framework to financial consumers, microfinance borrowers or, more generally, users of IFC financed services (be those financial services, such as microfinance, or others such as education or transportation). IFC’s Sustainability Framework refers to “affected communities.”<sup>239</sup> Performance Standard 1 calls on clients to identify, address, and manage impacts on “affected communities” and generally on “those who are likely to be affected by [the relevant] risks and impacts” of an IFC financed project.<sup>240</sup> Microfinance borrowers and their families are likely to be affected by the relevant risks and impacts as referenced in PS1. CAO examines in this case IFC’s compliance with those provisions of its Sustainability Framework relevant to microfinance investments.

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<sup>235</sup> The IFC Exclusion List has three additional items when FIs are investing in microfinance activities. These three items apply “in addition to the [rest] of the IFC Exclusion List” and relate to prohibitions on activities that might involve forced and child labor, hazardous chemicals, and lands of Indigenous Peoples. The IFC Exclusion List with these microfinance prohibitions is often referred to as the IFC MFI Exclusion List. Specifically, regarding Indigenous Peoples, the MFI Exclusion List indicates that “IFC does not finance the following projects: [...] When investing in **microfinance** activities, [...] Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.” IFC Exclusion List: <https://bit.ly/3FqDjTf>. IFC has argued that the Exclusion List applies to activities of microenterprises not the borrowers themselves. CAO notes that this is a limitation that is not in the text of the IFC Exclusion List, whose purpose is to prevent that all IFC financed activities, without limitation on who is carrying them out, do not impinge on the land on Indigenous Peoples.

<sup>236</sup> For the MEF investment, the 2006 PS included almost identical provisions in paras. 3, 7, and 8.

<sup>237</sup> IFC considers that its E&S policies are meant to address environmental and social impacts and risks associated with the end use of proceeds of IFC financing, such that lending and Financial Consumer Protection (FCP) practices and the impact on sub-borrowers in this context do not fall within this scope.

<sup>238</sup> 2012 Sustainability Policy, paras. 1, 3, 20, and 22, and IFC Guidance Note to PS1, paras. 16 and 17.

<sup>239</sup> 2012 Sustainability Policy, FN2. Also, in PS1, FN3.

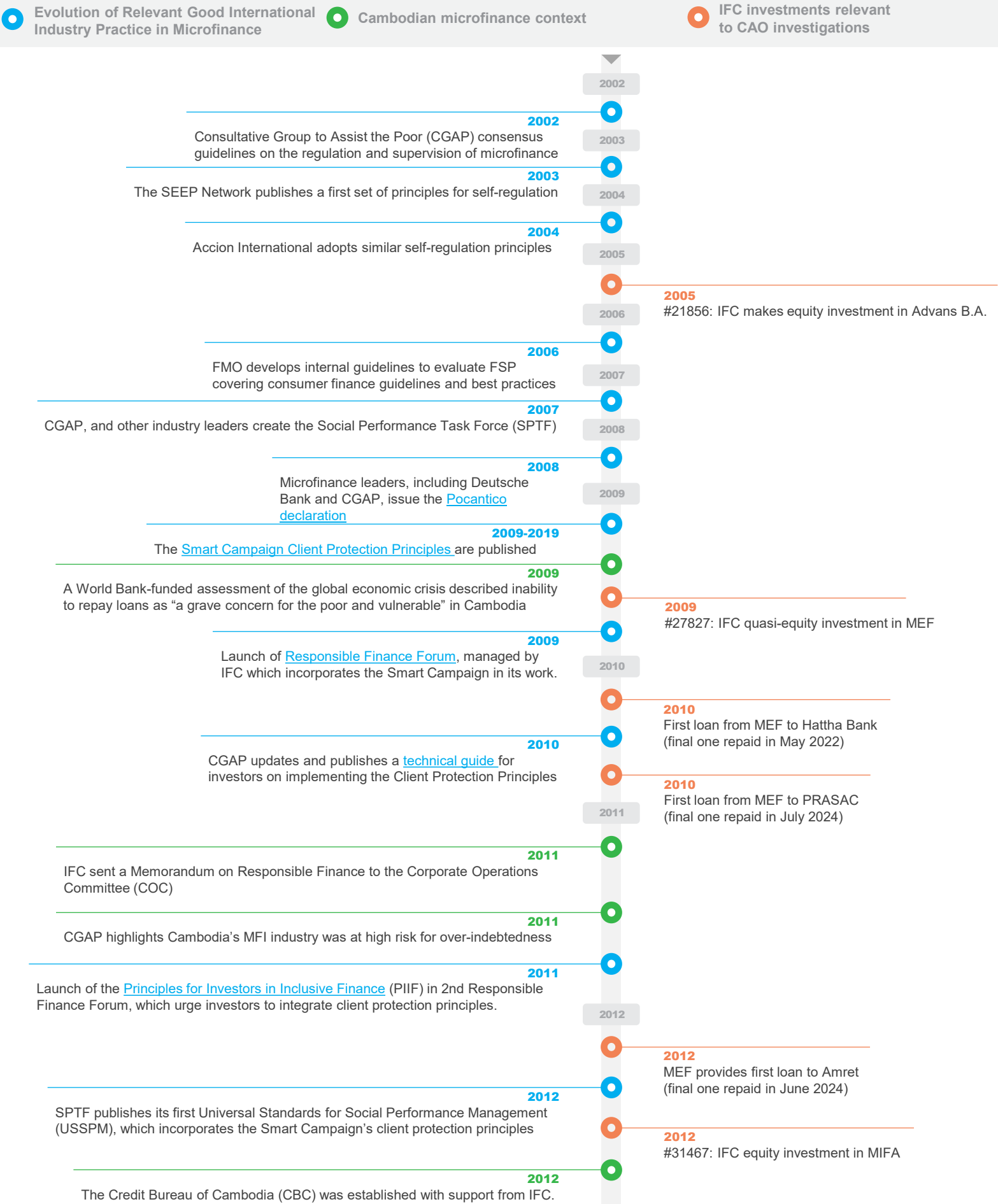
<sup>240</sup> 2012 PS1, para. 7. PS1 refers to Policies applying to “Affected Communities” broadly defined as “local communities directly affected by the project” (PS1, para 1).

### **3.7.2 Timeline of relevant Good International Industry Practice (GIIP), the Cambodian microfinance context and IFC investments**

IFC’s Performance Standards require that clients' environmental and social management systems align with Good International Industry Practice (GIIP). GIIP represents the globally recognized standard of care applied by responsible entities that has evolved in response to issues and concerns that emerge in a particular industry sector. In practical terms, GIIP provides concrete actions and processes to effectively meet the requirements of the IFC Performance Standards in a particular context.

The good international industry practice (GIIP) applicable for microfinance investments under PS1, has developed significantly over the last 20 years that span the investments involved in this case. The timetable below describes these developments and the related relevant developments in the microfinance sector in Cambodia, in relation to IFC’s investments. A more detailed timeline can be found in Annex B.

# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.



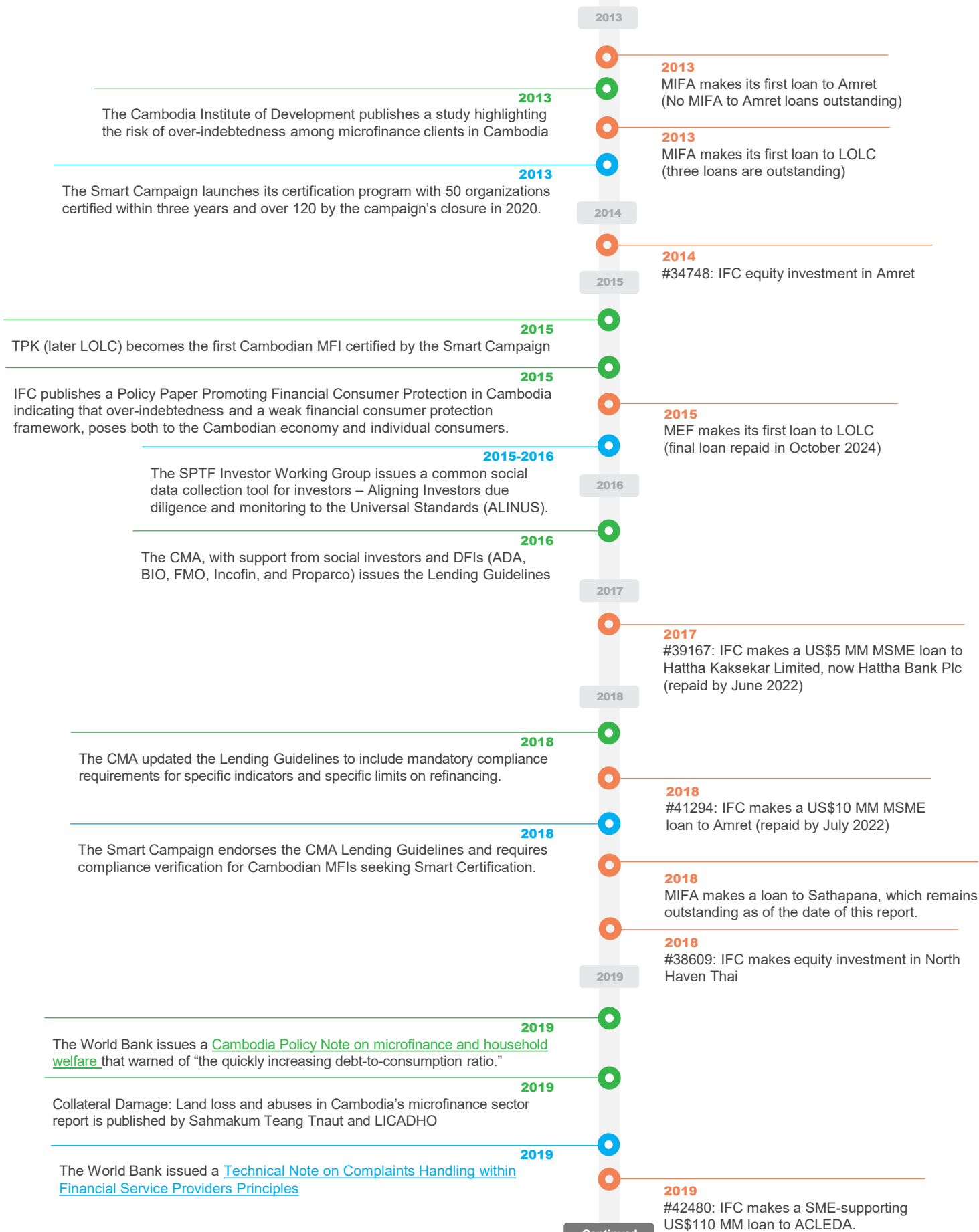
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# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.

● Evolution of Relevant Good International Industry Practice in Microfinance

● Cambodian microfinance context

● IFC investments relevant to CAO investigations



Continued

# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.

● Evolution of Relevant Good International Industry Practice in Microfinance

● Cambodian microfinance context

● IFC investments relevant to CAO investigations

2020

2020  
IFC commissions a MIMOSA report, which concludes that Cambodia has reached the maximum level of market saturation and notes lack of consumer protection and regulation.

2020  
#44231: IFC makes a US\$25 MM MSME Covid loan to Amret (repaid by June 2023)

2020  
#44211: IFC makes a US\$25 MM senior MSME Covid loan to Hattha Bank (repaid by June 2022).

2020  
The Smart Campaign announces its closure. The project and all its components are transferred to CERISE+SPTF.

2021

2021  
CERISE+SPTF launch the [Client Protection Pathway](#), which includes certifications by approved rating agencies.

2021  
#44882: IFC makes a US\$169 MM SME loan to ACLEDA.

2021  
#44742: IFC makes a US\$40 MM MSME Covid loan to Hattha Bank.

2021  
Several UN agencies and Independent Experts express concern about the adverse social repercussions of over-indebtedness in Cambodia from 2020 through 2024

2021  
#45535 : IFC makes a US\$70 MM MSME Covid loan of to Hattha Bank (repaid by July 2024)

2021  
Right to Relief: Indebted Land Communities Speak Out report is published by Equitable Cambodia and LICADHO

2021  
MIFA Impact and Outreach Report found that 72% or more of the survey respondents in Cambodia claim an overall improvement of quality of life following the loans extended by the MFIs

2022

2022  
The ABC, the CMA, and the Cambodia Association of Fintech & Technology adopt the Banking and Financial Institution Codes of Conduct, requiring compliance with the Lending Guidelines, and CBC monitoring.

2022  
Investment by North Haven Thai in ACLEDA.

2022  
A study commissioned by the German government identifies debt related food reduction, land sales, and children dropping out of school to work among microfinance borrowers

2023

2023  
In August, CPP certifications for Amret, LOLC, and Sathapana are placed under review by their respective certifying bodies, and in November, a CMA-commissioned study finds similar social impacts to those in the 2022 German sponsored study.

2023  
Debt Threats: A Quantitative Study of Microloan Borrowers in Cambodia report is published by Equitable Cambodia and LICADHO

2024

2024  
Impact data firm 60 decibels releases a survey of almost 3k MFI Cambodian clients confirming a high level of repayment stress leading to negative social impacts.

### 3.7.3 Highlights of GIIP in microfinance investments

#### Good International Industry Practice for Responsible Microfinance Investments

Good International Industry Practice (GIIP) over the last 20 years has developed relevant standards both for investors in microfinance providers and for the microfinance providers themselves. The relevant developments for this case mean that investments that involve microfinance are expected to follow the following key steps to avoid adverse social impacts to the poor and vulnerable populations it targets:

- **Preliminary Screening:** Investors should carry an initial review of the financial provider’s (FSP) business model, country context, regulatory environment, and other relevant factors to identify potential risks to consumers from their policies and practices.
- **Risk Assessment:** Investors should evaluate the level and nature of consumer risks in the FSP’s lending practices. This should include reviewing policies and practices on disclosure, fair treatment of clients and grievance mechanisms. The Client Protection Pathway (and previously the Smart Campaign) provide the good international industry standards that should be implemented by microfinance providers to prevent harm to borrowers. Relevant to the issues raised in this complaint, a risk assessment should review whether the microfinance providers:
  - Ensure appropriate product design and delivery to prevent over-indebtedness and avoid harm, including identifying assets that cannot be pledged as collateral to avoid severe hardship or significant loss of income earning ability for the client.
  - Prevent over-indebtedness by assessing borrowers’ repayment capacity.
  - Ensure transparency by providing clear, sufficient, and timely information for informed decision-making.
  - Ensure fair and respectful treatment of clients, with safeguards against aggressive or abusive practices.
  - Ensure the availability of accessible, adapted, efficient, timely, and responsive mechanisms for complaints and problem resolution.
- **Mitigation/Action Plan:** Investors should develop a plan to address identified risks and impacts to consumers, which may include recommending changes to the provider’s policies and practices and providing technical assistance.
- **Contractual Requirements:** Include specific contractual obligations for financial providers to adopt responsible finance practices.
- **Monitoring:** Require financial providers to regularly report on their progress in meeting contractual requirements related to risks and impacts to consumers.
- **Capacity Building:** Consider training financial providers on responsible finance practices and consumer protection best practices.

**Sources:** Client Protection Standards Manual from Cerise + Social Protection Task Force (SPTF), available [here](#); Client Protection Principles from the Smart Campaign, and CGAP - Technical Guide for Investors on Implementing Client Protection Principles, available [here](#).

## 4. Analysis and Findings

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This section presents CAO’s analysis of IFC compliance with its E&S obligations in relation to the complaint issues raised in this case. In conducting this analysis, as referenced earlier, CAO considered IFC’s position that its E&S policies are intended to address environmental and social risks and impacts associated with the *end use of proceeds* of IFC financing. In IFC’s view, therefore, lending practices, financial consumer protection (FCP) issues, and the resulting impacts on sub-borrowers in the context of microfinance are outside the scope of its E&S requirements.<sup>241</sup>

CAO’s analysis, however, does not support this view. The widely documented adverse conditions and practices associated with microfinance lending, such as inadequate assessment of repayment capacity, over-indebtedness, and abusive collection methods, can give rise to significant adverse social impacts, including loss of land, reduction of livelihoods, impoverishment, and harm to Indigenous Peoples (see section 1). These risks and impacts are directly relevant to the objectives and requirements of IFC’s Sustainability Policy and Performance Standards.

In addition, IFC’s Sustainability Policy, which sets out its E&S obligations, applies to all IFC projects and their full scope of E&S risks and impacts, including any “unique impacts” not specifically mentioned in the policies, “unless specifically excluded”.<sup>242</sup> There is no exclusion or limitation in the application of IFC’s Sustainability Framework to financial consumers, microfinance borrowers, or users of IFC financed services more generally (be those financial services, such as microfinance, or others such as education or transportation). In CAO’s view, since microfinance activities are not exempt, the business activities of IFC’s financial intermediary clients should be identified, assessed, and managed as part of IFC’s E&S due diligence and supervision in accordance with the Sustainability Policy. CAO’s analysis for this case examines IFC’s compliance with its E&S policies in relation to avoiding and reducing social impacts associated with microfinance services on the vulnerable populations—including the complainants, their families, and their communities—that IFC’s Sustainability Framework seeks to protect.

This section assesses whether IFC met these obligations in the context of the 13 investments covered by this investigation. CAO’s notes that its determinations and findings are limited to an assessment of IFC’s compliance with its Environmental and Social (E&S) requirements in relation to these 13 IFC investments, and to the related harm experienced by the 18 complainants who submitted the complaint. In making findings regarding Harm related to IFC non-compliance with its E&S requirements, CAO considered project and sub-project E&S performance. This consideration does not constitute an evaluation of the Cambodian microfinance sector as a whole.

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<sup>241</sup> For more details see IFC Management Response attached to the CAO’s appraisal report, available at: <https://bit.ly/45muCUR>

<sup>242</sup> 2012 Sustainability Policy, para 20 states: “Environmental and social due diligence applies to all IFC investment activities. See also paras. 1, 3, and 22, and IFC Guidance Note to PS1, paras. 16 and 17.”

#### 4.1 General IFC approach to pre-investment due diligence and supervision of microfinance investments

This section examines IFC’s actions during pre-investment due diligence and supervision in relation to the complainants’ allegations.

As IFC stated in its response to the complaint, it currently does not apply its E&S performance standards to microfinance investments in order to identify and manage potential adverse impacts on borrowers. However, since 2011, IFC has taken steps to integrate responsible finance considerations into its investment processes, particularly in the microfinance sector, through its *Financial Inclusion and Consumer Protection Strategy*. This strategy, summarized in Box 1, applies Client Protection and Responsible Finance Principles (see Box 2) to its microfinance investments through its financial department.

Through this framework, IFC requires FI clients and sub-clients to implement some of the good international industry practice standards CAO identified as relevant to preventing adverse social impacts on borrowers in its microfinance investments.

In reviewing IFC’s compliance with the Sustainability Policy, CAO therefore took into account its efforts under the *Financial Inclusion and Consumer Protection Strategy* to promote more responsible microfinance. By taking this approach, CAO ensured that its assessment of IFC compliance was based on a full and fair understanding of IFC’s efforts. Ultimately, the central question for CAO’s compliance review was whether IFC met the requirements of the Sustainability Policy, irrespective of the formal framework or program under which its actions were undertaken..

The extent to which this strategy meets the requirements of IFC’s E&S policies is further explained in section 4.3 of this report.

**Box 1: IFC’s Financial Inclusion and Consumer Protection Strategy  
Summary of Relevant Practices**

At the project level:

- Financial due diligence: IFC typically includes a microfinance specialist as part of its financial team to review FI clients’ responsible finance policies and procedures, including whether the clients follow GIIP standards on financial consumer protection. The process does not include IFC verification of implementation of these policies and procedures.
- Affirmative covenants in legal agreements: Some investment agreements include affirmative covenants requiring compliance with IFC’s Client Protection and Responsible Finance Principles (see Box 2). These Principles are often listed in annexes but are not accompanied by reporting obligations on the client or verification of their compliance by IFC.

Client compliance with these Principles or the client policies and practices reviewed during due diligence is not monitored by IFC during investment supervision. Thus, there is no specialized oversight of financial consumer protection practices once IFC approves a project.

At the sector policy level:

- IFC works with and supports governments, industry associations, and other relevant stakeholders to increase capacity in the country, strengthen regulatory frameworks, and provide advisory services on responsible finance policies and practices.
- In Cambodia, IFC supported the creation of the Credit Bureau of Cambodia (CBC) to improve debt assessments at the national level, advised the government on relevant regulations, and provided advice and input to industry associations such as the Cambodia Microfinance Association (CMA) and the Association of Banks of Cambodia (ABC) on responsible finance practices.

**Box 2: IFC’s Client Protection and Responsible Finance Principles<sup>243</sup>**

- **Avoidance of over-indebtedness:** The (IFC) borrower will take reasonable steps to ensure credit is extended only if borrowers have demonstrated an adequate ability to repay and loans will not put the clients at significant risk of over-indebtedness.
- **Transparent and responsible pricing:** The pricing, terms, and conditions of financial products will be transparent and adequately disclosed in a form understandable to clients.
- **Appropriate collection practices:** Debt collection practices of the (IFC) borrower will be neither abusive nor coercive
- **Ethical staff behavior:** Staff of the (IFC) borrower will comply with high ethical standards in their interactions with its clients, and such providers will ensure adequate safeguards to detect and correct corruption or mistreatment of clients.
- **Mechanisms for redress of grievances:** The borrower will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.
- **Privacy of client data:** The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions, and such data shall not be used for other purposes without the express permission of the client.

<sup>243</sup> These principles are often listed in covenants in IFC’s legal agreements (IFC Request for Board Review, Annex A – Client Protection and Responsible Finance Principles, June 29, 2023, <https://bit.ly/4nenNuC>, p.14). They are not accompanied by reporting obligations on the client or verification of their compliance by IFC. CAO’s investigation report considers IFC’s application of these Principles to its microfinance investments with the exceptions of responsible pricing and data privacy, which are not relevant to this investigation.

## Project level IFC approach

In line with its *Financial Inclusion and Consumer Protection Strategy*, IFC has taken the following actions relevant to this compliance investigation. Since at least 2011,<sup>244</sup> in Cambodia, IFC has regularly:

- Involved a microfinance specialist during due diligence of relevant investments. This specialist typically reviews the potential FI client’s responsible finance policies and procedures, which includes whether the clients follow the GIIP standards on financial consumer protection described above, including transparent pricing, interest rates, and data privacy.<sup>245</sup> The process does not include verification of client implementation of these policies and procedures and rarely involves site visits and interviews with borrowers or other relevant stakeholders.<sup>246</sup> In terms of whether these financial reviews meet the requirements of IFC’s E&S policies, CAO notes that IFC is obligated under its Sustainability Policy to verify whether clients’ policies, procedures, and other measures are adequate to meet the Performance Standards. While IFC does not directly manage the client’s system of policies, standards, and procedures, it must satisfy itself that the system is being applied effectively and producing the intended outcome<sup>247</sup> (see section 4.3 for CAO’s consideration of these financial reviews).
- Included an affirmative covenant in some investments requiring compliance with IFC’s Client Protection and Responsible Finance Principles. Such contracts typically included an annex where the principles were enunciated, but no reporting obligations were attached.

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<sup>244</sup> In 2011, in response to microfinance crisis such as the one in Andhra Pradesh (see section 1.1 above), an internal memo highlighted the need to integrate responsible microfinance measures to, among other things, protect microfinance clients from coercive practices. It mentions the need for measures related to transparent pricing, avoiding over-indebtedness, fair contracts, appropriate products, data privacy and ethical conduct of microfinance providers. The memo highlights discussions at the time regarding the needed balance between return, the role of purely commercial investors in microfinance, social protection and corporate governance, and the need for all stakeholders, including investors such as IFC, to have a role in building an appropriate infrastructure and making improvements in each of their operations to ensure the industry is at the forefront of responsible finance. While some aspects of the recommendations were taken upon and included in the IFC investment procedures, or through advisory services, others such as suggestions to monitor the implementation of the client protection principles through reporting and regular monitoring are not reflected in IFC’s current practices.

<sup>245</sup> The IFC unit/department of microfinance specialists has been reduced in the last few years from around 8-10 microfinance specialists to two full-time and one part-time microfinance specialists handling microfinance investments globally. Additionally, this team is supported by one full-time microfinance specialist in Africa, working in both investments and advisory services and full-time advisory services specialists working in Latin American, the Caribbean and Asia, as well as other full-time staff with microfinance knowledge that are called upon to support on Responsible Finance issues. In some investments, General Banking Specialists, who are not always knowledgeable about microfinance, have sometimes assumed the role of the microfinance specialists and have conducted the responsible finance assessment during the due diligence phase of the investment.

<sup>246</sup> IFC informed CAO that this process goes beyond a desk review, and that where there has been a perceived high risk, IFC has undertaken to support clients to improve their responsible finance practices with examples across Africa, South Asia, Middle East, East Asia, including Cambodia and Thailand.

<sup>247</sup> IFC Policy on Environmental and Social Sustainability (2012): para. 27 (IFC reviews clients’ ESMS and risk management practices to assess adequacy against the Performance Standards); para. 28 (due diligence includes review of assessments, site visits, stakeholder engagement, and identifying gaps/actions); para. 45 (supervision involves reviewing monitoring reports, action plan progress, and ensuring ongoing compliance). See also IFC, Environmental and Social Review Procedures (2016): p. 9, which clarifies that assessing and managing impacts is the client’s responsibility, while IFC’s role is to review and verify performance.

CAO notes that client compliance with these Principles or the client’s own policies and practices reviewed during due diligence is not monitored by IFC during investment supervision. Thus, there is no specialized oversight of financial consumer protection practices after IFC approves a project.

### **Sector level IFC approach**

It is noteworthy that while IFC has not always worked directly with individual clients to improve their lending and collection practices to avoid and reduce negative social impacts of microfinance operations, it has actively addressed these impacts at the sector and industry level in Cambodia for two decades. Specifically, IFC has supported the following microfinance capacity building and advisory services and initiatives:

- At the sectoral level, IFC has worked with the National Bank of Cambodia (NBC) since 2006 to establish the private Credit Bureau of Cambodia (CBC), operational since 2012. CBC acts as a shared source of information for credit reporting and a tool to reduce the risk of borrower over-indebtedness. By 2018, it had 86 members including all regulated MFIs and commercial banks, which are required to provide loan information. CAO considers the CBC’s impact and effectiveness in reducing borrowers’ over-indebtedness in section 4.2.1 below when discussing the policies and practices of the lenders in this case to assess borrowers’ repayment capacity.
- Through its Financial Institutions Group in Advisory Services, IFC has worked with NBC and CBC since 2013 to strengthen Cambodia’s financial consumer protection (FCP) framework, resulting in reforms such as the Prakas (sub-decree) on Resolution of Consumer Complaints, the revised Code of Conduct for banks and MFIs, and the Cambodia Microfinance Association (CMA)’s Addendum on Temporary Lending Guidelines. In addition, IFC collaborated with CMA, CBC, and the SMART Campaign to promote the Cambodian Lending Guidelines.<sup>248</sup> CAO takes into account the impact of these regulations and initiatives in addressing the issues raised in the complaint at the individual IFC client and sub-client level in sections 4.2 to 4.5 below.
- In 2020, IFC began implementing an insolvency and debt resolution project for non-performing loans to strengthen fair and transparent practices. This Advisory Services project supports Cambodia’s National Commercial Arbitration Centre (NCAC) in developing commercial mediation as an alternative dispute resolution mechanism and working with the Ministry of Justice to enhance the insolvency resolution system. IFC presents this project as part of a package of measures it has implemented to address the over-indebtedness crisis in Cambodia and social issues raised in this complaint. However, CAO notes that the mechanisms being developed are for business entities and there is no evidence that they

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<sup>248</sup> The SMART Campaign is a global standard setting body for responsible finance and client protection that certified institutions for their adherence to a code of conduct of responsible finance. The SMART Campaign was discontinued in 2020, and the management of responsible finance and client protection standards was transferred to the Social Performance Task Force (SPTF) and CERISE. In September 2021, SPTF and CERISE launched the Client Protection Pathway, a new initiative to support client protection practices implementation.

could serve the needs or circumstances of individual microfinance borrowers.<sup>249</sup>

- In 2024, through Advisory Services, IFC launched a project to strengthen the Cambodian FCP framework, including by supporting NBC to develop and issue a general Regulation on Financial Consumer Protection and increase its supervisory capacity in this area. IFC also worked with the industry to raise consumer financial capability and enhance self-regulation, and advocated for the establishment of an independent dispute resolution mechanism for microfinance-related complaints in Cambodia. This project is in the initial consultation stages (expected to be completed by 2028) and has not yet had any direct impact on the policies and practices of the IFC clients and sub-clients in this case.

In addition, IFC has provided multiple Advisory Services to financial institutions in Cambodia, including some of the six covered by this case, to support their commercialization, improve their corporate governance and risk management,<sup>250</sup> and, more recently, promote responsible finance (see section 1.2 for more details). For example, in 2021, IFC supported an assessment of Hattha Bank’s responsible finance practices and subsequent guidance to the bank in implementing its recommendations. IFC views such efforts as part of a broader initiative to support clients in Cambodia in making time-bound improvements to responsible finance practices. Nonetheless, at the time of this report, this support had only been given to Hattha Bank (described in more detail in section 4.3 below).

As acknowledged by IFC, these sector level efforts reflected mounting concerns over the social risks and impacts of microfinance in Cambodia and focused on the ultimate goal of improving practices and policies of microfinance lending institutions. CAO took into account these initiatives at the sector, industry, and client level in the case of Hattha Bank (see sections 4.3-4.5 below).

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<sup>249</sup> As part of this investigation, CAO engaged with the NCAC to better understand its scope and potential role in resolving disputes involving microfinance borrowers. While the NCAC’s framework covers commercial disputes and theoretically allows for the inclusion of both borrowers and lenders in arbitration proceedings, NCAC’s mandate is not specifically tailored to address disputes involving microfinance clients. In practice, NCAC has handled approximately 40 cases to date, with claim values ranging from USD 6,000 to USD 29 million. See: NCAC, Annual Report for Year 2022, <https://bit.ly/4j8tli0> and NCAC, Annual Report for Year 2023 and first quarter of 2024, <https://bit.ly/4j4fYEZ>. Notably, NCAC informed CAO that none of these cases have involved microfinance borrowers. Similarly, the enhancement of the insolvency resolution system under the 2007 Insolvency Law, supported by IFC, appears to be primarily designed for business entities. See: <https://bit.ly/45dKUz7> CAO found no evidence of mechanisms within either framework that are specifically adapted to the needs or circumstances of individual microfinance clients.

<sup>250</sup> For example, IFC provided technical assistance and support to ACLEDA over many years, for its transformation from an NGO to a commercial bank in 2003. IFC also conducted a feasibility and gap analysis of Hattha Bank’s transformation from an MFI into a bank, helping pave the way for the institution’s transition in 2020 (see section 2 above)

## 4.2 Consideration of IFC project and sub-project E&S performance regarding the complaint issues relevant to IFC’s due diligence and supervision

The complaint issues raised in this case relate to IFC’s E&S policy requirements regarding vulnerable populations, Indigenous Peoples, and access to adequate grievance mechanisms. In sections 4.2 to 4.5, CAO examines IFC’s due diligence and supervision of its clients on these issues by:

1. Considering the clients’ and sub-clients’ relevant E&S performance, specifically their lending and collection practices related to the issues raised<sup>251</sup>
2. Examining IFC’s actions regarding vulnerable populations and its compliance with its E&S policies
3. Examining IFC’s actions during regarding Indigenous Peoples and its compliance with its E&S policies
4. Examining IFC’s actions regarding the clients’ and sub-clients’ grievance mechanisms and its compliance with its E&S policies.

CAO’s compliance analysis below reviews IFC’s actions across the 13 projects.<sup>252</sup> This includes the actions of E&S officers and investment team members, such as microfinance or industry specialists who examined the client’s lending and collection practices from a financial perspective. This analysis assesses the consistency of IFC’s actions during due diligence and supervision with the IFC Sustainability Policy, including seeking to ensure that the clients and sub-clients adhered to IFC’s Performance Standards, regardless of whether the actions were undertaken by E&S specialists or microfinance industry specialists.

Determining whether IFC complied with its obligations under the Sustainability Framework during its due diligence and supervision of its investments requires consideration of the extent to which IFC client and sub-client practices are consistent with IFC’s E&S requirements, including GIIP and relevant national law, designed to avoid and mitigate adverse social impacts on vulnerable populations and Indigenous Peoples.<sup>253</sup>

In the course of this investigation, CAO reviewed the policies and practices of the six FI clients and sub-clients (ACLEDA, Amret, Hattha Bank, LOLC, PRASAC, and Sathapana) through document review, interviews with headquarters and branch staff of all six institutions, and interviews with borrowers from these six institutions. CAO also interviewed the fund managers of MEF, MIFA,

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<sup>251</sup> The CAO Policy (para. 114) states that: “A compliance investigation does not make non-compliance findings in relation to a Project or Sub-Project. However, in making findings regarding Harm and whether any Harm is related to IFC/MIGA noncompliance with its E&S Policies, CAO will assess IFC/MIGA’s review and supervision of its E&S Requirements at the Project or Sub-Project level, and consider Project- or Sub-Project-level environmental and social performance.”

<sup>252</sup> The complaint was submitted by a group of 18 households complainants who are borrowers of financial institutions from Cambodia. The six Cambodian BFs whose practices are the subject of the complaint are, ACLEDA, Amret, Hattha Bank, Prasac, LOLC and Sathapana. The seven direct IFC clients relevant to the case are ACLEDA, Amret, Hattha Bank, MEF, MIFA, North Haven Thai, and Avans. In total, this case involves 13 IFC investment projects that support client lending to micro, small, and medium enterprises (MSMEs).

<sup>253</sup> CAO Policy, para. 114. This report refers to policies and practices considered by CAO at the time of the investigation. These policies and practices may have changed since the conclusion of the investigation.

Advans, and North Haven Thai. This review was further informed by publicly available information, and consultations with NGOs, academics, and industry experts (see also section 3.6).

#### **4.2.1 Consideration of IFC project and sub-project E&S performance related to PS1 requirements regarding vulnerable populations**

Under its Sustainability Policy, IFC commits to ensuring that the costs of economic development do not fall disproportionately on poor or vulnerable people, and to seeking, through its due diligence, monitoring, and supervision, that the activities it finances are implemented in accordance with the Performance Standards. To this end, Performance Standard 1 requires clients to identify vulnerable or disadvantaged groups, assess disproportionate risks to them, and implement measures to avoid harm and ensure they are not disadvantaged in sharing in project benefits.

IFC’s FI clients must establish and implement an E&S Management System consistent with PS1.<sup>254</sup> In doing so, clients should identify risks and impacts, and implement mitigation measures, following GIIP standards, as well as identify “disadvantaged or vulnerable” groups and implement “differentiated measures so that adverse impacts do not fall disproportionately on them.”<sup>255</sup> PS1 also requires FI client staff who interact with vulnerable or disadvantaged individuals or groups to be competent in their understanding of relevant specific issues related to such individuals or groups, which may warrant specific training.<sup>256</sup> GIIP indicates that adverse impacts on microfinance borrowers should be prevented and mitigated through the integration of standards in the policies and procedures of BFIs that seek to minimize adverse impacts. The relevant standards related to the allegations raised in this case are that financial service providers should:<sup>257</sup>

- Ensure appropriate product design and assessment of repayment capacity to prevent over-indebtedness and avoid harm, such as loss of land, decrease in livelihoods, and further impoverishment of vulnerable populations
- Provide clear, sufficient, and timely information to allow potentially impacted populations to make fully informed decisions
- Ensure fair and respectful treatment of clients with adequate safeguards against aggressive or abusive treatment that could have significant impacts on vulnerable populations.

With regard to the Sustainability Framework requirement that clients comply with relevant national law,<sup>258</sup> Cambodian law establishes that creditors do not have direct power to confiscate collateral

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<sup>254</sup> 2012 Sustainability Policy, para. 33 and 35, and for the MEF investment, 2006 Sustainability Policy, para.28-29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>255</sup> 2012 PS1, para. 12. For the MEF investment, see also 2006 PS1, para. 12. For the Advans investment, see 1998 ESRP, para. 22, footnote 7.

<sup>256</sup> 2012 PS1, para. 18 and GN79. For the MEF investment, see also 2006 PS1, para. 18.

<sup>257</sup> See, The Smart Campaign, The Client Protection Principles, <https://bit.ly/3Fqg2AR>; Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, <https://bit.ly/4kw6Dao>, and Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, p.19, <https://bit.ly/41RDorH>

<sup>258</sup> 2012 Sustainability Policy, para. 35, and 2012 Performance Standards Overview, para. 5. For the MEF investment, 2006 Sustainability Policy, para. 28, 2006 PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

and must follow a judicial process.<sup>259</sup> It further mandates that local authorities (e.g., police, village chiefs, commune chiefs, and district governors) are prohibited from participating in financial providers’ activities or “acting jointly” with financial providers, unless when following a court order, to avoid misunderstandings between government and private sector actions. It also specifically prohibits sub-national local authorities from acting as sales agents, witnesses or guarantors, or from participating in loan advertising and debt collection.<sup>260</sup> Finally, national law prohibits service providers from making all forms of threat and intimidation in the loan recovery process.<sup>261</sup>

In assessing IFC’s compliance with its obligations under the Sustainability Policy, CAO considers the E&S performance of IFC financed projects and sub-projects. As part of this review, CAO has noted three main types of practices that may have contributed to adverse impacts on vulnerable populations. These practices, in some cases, reveal gaps when measured with GIIP and applicable national law, which under PS1, must be addressed to safeguard vulnerable groups. These, presented below, are directly relevant to CAO’s assessment of IFC’s compliance with its due diligence and supervision obligations under the Sustainability Framework.

*a) Approval of outsized loans beyond repayment capacity*

Loans offered to low-income populations by IFC’s clients and sub-clients can be as large as \$50,000.<sup>262</sup> While there is no explicit restriction on loan size in Cambodia, PS1 requires that IFC clients and sub-clients have a PS1-compliant ESMS that identifies and adopts special measures for vulnerable populations and follows GIIP standards, including the measures regarding product design, information, and respectful treatment of clients outlined above. This, in turn, required the microfinance providers in this case to take appropriate measures at every stage of the credit process to verify borrowers’ ability to repay and to prevent clients from borrowing more than they could repay or using unnecessary products.<sup>263</sup>

As early as 2009-2010, the international Smart Campaign standards for microfinance stated that lenders’ analysis of borrowers’ repayment capacity should include “income streams, liquid assets, and some allowance for future income that may be less than current income; a cushion to allow clients to absorb future shocks or pay for emergencies”. In designing and delivering products, the

<sup>259</sup> Article 334 of Cambodian Civil Code Procedures 2006.

<sup>260</sup> Ministry of Interior. (2017). Ministerial order (Prakas) No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators. Phnom Penh. The order prohibits sub-national administration authorities from getting involved with MFIs to prevent causing a misunderstanding among the general public, between state and private actors. More specifically, the second provision of the order instructs the following: “Unless legally required to engage in the enforcement of a court judgement, district/Municipality/Khan, commune/Sangkat, and village authorities shall not act jointly with private banks, MFIs and rural credit operators, (which causes misunderstanding among people that these banks, MFIs and operators are state-owned) including serving as guarantors in a loan transaction or as agents or debt repayment guarantors, or demanding repayment from people, advertising for any financial institution, or taking part in seizing people’s collateral.” *[Original document is in Khmer - translation done by CAO]*

<sup>261</sup> Article 19 of the Consumer Protection Law –Royal Government of Cambodia (2019). Law on consumer protection (NS/RKM/1119/016). Phnom Penh.

<sup>262</sup> Amret: \$30,000 USD, see: <https://bit.ly/3WwYAj6>; ACLEDA and Hattha Bank \$50,000 see: <https://bit.ly/4nlzZnB> and <https://bit.ly/48XvXTJ>, noteworthy that PRASAC micro-loans are limited to \$1,500 and \$5,000 for worker loans, see: <https://bit.ly/3VUQClj> and <https://bit.ly/4mVKEi4>.

<sup>263</sup> Cerise+ SPTF, Universal Standards for Social and Environmental Performance Management, 2022, 4.A.1: The provider makes loan decisions based on a client’s repayment capacity. <https://bit.ly/41RDorH>. See: Elisabeth Rhyne. Consumer Protection in Microfinance – A Non-Regulatory Approach. Oct 2003; CGAP Focus Note No.27: Protecting Microfinance Borrowers. May 2005; Smart Campaign, SPTF, Cerise, The Client Protection Principles, <https://bit.ly/3Fqg2AR>.

Smart Campaign emphasized that, to avoid harm to clients, the guarantee should not be the only factor that matters for loan approval.<sup>264</sup> In 2016 and 2022, updates to these standards emphasized the need for lenders to conduct a cash flow analysis that considers the borrower’s income, expenses, and debt service related to business and family, as well as any other revenue, including informal sources. Lenders were advised not to use guarantee, guarantor income, collateral, and/or insurance coverage as proxies for repayment capacity or as the main basis for loan approval.<sup>265</sup>

In general, CAO observes that ACLEDA, Amret, Hattha Bank, Sathapana, PRASAC, and LOLC have documented policies in place to assess borrowers’ repayment capacity, which take into account character, ability to repay, capital, collateral, a cash flow analysis, and information from the Credit Bureau of Cambodia (CBC). The lenders also have systems in place to verify sources of income, although there are challenges associated with the reliability of reported incomes in a largely informal sector. Much depends on the capacity of field staff, as there is little third-party data to assist in verifying the reported information.<sup>266</sup>

From a randomized review of ACLEDA, Amret, Hattha Bank, PRASAC, and Sathapana loan files,<sup>267</sup> CAO noted that these institutions calculate a client’s repayment capacity within a 70% limit on the debt/income ratio, as recommended by the SPTF+Cerise standards incorporated in the Cambodian Financial Institutions Code of Conduct. It is unclear whether the 70-30% ratio is being calculated in all cases with regard to a client’s “disposable” income, as suggested by the SPTF+Cerise standards, or on the basis of the borrowers’ entire income.<sup>268</sup>

Moreover, the BFI’s policies and practices considered in this investigation in the context of IFC’s due diligence and supervisions obligations have not necessarily ensured adequate assessment of repayment capacity by not considering common income-related risks; flaws in credit reporting; and over-relying on the value of collateral.

In order to mitigate adverse impacts on vulnerable populations, IFC should have reviewed and supervised to what extent its clients considered the following key factors relevant to repayment capacity in line with GIIP, as required by PS1:

- *Income-related risks:* With the exception of one IFC client, CAO did not see indications that the BFIs have comprehensive systems in place to account for income-related risks related to either the type and source of borrower income, or external factors such as weather

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<sup>264</sup> Conducting Client Protection Assessments: A Guide. The Smart Campaign, Feb 2010, <https://bit.ly/3QNuSUh>.

<sup>265</sup> Client Protection Standards 2.0. The Smart Campaign, May 2016, <https://bit.ly/4hNvgxe>, Cerise SPTF Universal Standards for Social and Environment Performance Management, 2022, p.25.

<sup>266</sup> Loan approval processes within BFIs generally depend on the loan amount, with larger loans typically requiring authorization from designated committees or senior staff rather than field staff. One of the six financial institutions named in this case has developed business standard forms for farming activities including rice, cassava, rubber, cashew, and pepper to help credit officers conduct accurate income assessments. Another FI client uses a digital tool, but the income from seasonal cropping has to be calculated manually.

<sup>267</sup> LOLC did not provide CAO with access to loan files to conduct a review.

<sup>268</sup> The SPTF+Cerise standards consider disposable income that which remains after factoring in for business or household expenses (e.g. it should be on the basis of the household surplus) and emphasize the need to use conservative criteria when calculating income in situations where market saturation is high and where the client may be more vulnerable to over-indebtedness. SPTF+Cerise, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Dimension 4.A.1 on Client Protection, <https://bit.ly/3FGgUkJ>.

patterns, climate phenomena, or health risks.<sup>269</sup> For example, CAO could not verify that the risk of potential loss of income due to crop failure, the loss of factory jobs or temporary suspension of work, or a drop in construction subcontracting activity are systematically taken into account by these financial service providers. Significant percentages of borrowers interviewed by CAO—all clients of IFC’s clients or sub-clients—reported difficulties repaying loans due to crop failure or animal disease, as well as personal accidents or illnesses that limited their earning capacity.<sup>270</sup> This is consistent with national study findings that farming households have taken on more debt or sold land to repay debt due to these types of problems.<sup>271</sup>

- *Credit reporting:* The six BFIs named in this investigation rely on reports from the Credit Bureau of Cambodia (CBC) to provide the borrowers’ loan history and indicate a loan limit to assess borrower debt load. While IFC helped establish the CBC, and considers the bureau a key player in addressing Cambodia’s over-indebtedness crisis,<sup>272</sup> the CBC reports have some limitations. They do not account for borrowers’ informal debt, and are written in English, which the majority of FI credit officers and staff in Cambodia who do the assessments of repayment capacity do not speak.<sup>273</sup> During its site visit, CAO asked multiple credit officers from different IFC clients and sub-clients the meaning of the same section in a CBC credit report. Despite training provided by the BFIs, each credit officer gave a different answer.<sup>274</sup>

This illustrates how the ability of credit officers to properly understand and analyze a client’s debt situation may be compromised, despite some guidance provided by the CBC in

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<sup>269</sup> Two of the IFC sub/clients did explicitly identify certain industries as high-risk sectors in their policy documents and training materials and instruct their officers to adjust the income in their assessment of repayment capacity or to not lend to people whose sole income source was from these sectors. During Factual Review and Comments, one BFI noted they continue offering flexible debt relief solutions, including loan restructuring for clients affected by events like COVID-19, floods, droughts, fires, or illness. Options include up to 6 months grace on principal and interest, interest-only payments, or extended maturity.

<sup>270</sup> Loan repayment challenges were reported to CAO across sectors due to income instability. In agriculture, six complainants and 23% of borrowers interviewed struggled to repay loans following crop failures or livestock disease. In the garment sector, one complainant and 10% of borrowers cited irregular factory income—particularly affecting women—as a barrier to repayment. In construction, 13% of borrowers were unable to repay when demand for subcontracted services like soil and sand haulage declined.

<sup>271</sup> Res, Phasy, *Microfinance in times of Covid-19, Consumer Protection and the Loan Restructuring Process in Cambodia, 2021*, pp.38-40, <https://bit.ly/4iLFoap>; Brickell K., Lawrenniuk S., Chhom Th., Mony R., So H., and McCarthy L. (2023). ‘Worn-out’: debt discipline, hunger, and the gendered contingencies of the COVID-19 pandemic amongst Cambodian garment workers. *Social & Cultural Geography*. Personal accidents and illnesses also pose income-related risks to borrowers’ repayment capacity with two complainants and 7% of the randomly selected borrowers interviewed by CAO experienced repayment difficulties for such reasons. Except for one BFI, CAO did not see indications that BFIs in this case have included consideration of the borrower’s and co-borrower’s health in their calculation of repayment capacity.

<sup>272</sup> IFC Management Response, pp. 5, 13-14; IFC Request for Board review of decision to investigate the CAO complaint, June 29, 2023, <https://bit.ly/3XU2nIc>, p. 8

<sup>273</sup> While senior officials of the BFIs do tend to speak English, the majority of credit officers who examine the borrowers’ repayment capacity do not. This was verified by CAO during its investigation site visit through interviews with the credit officers from each of the BFIs, both at headquarters and in branches.

<sup>274</sup> The specific section in the CBC reports that led to varied interpretations refers to the total loan amount limits, which is critical for assessing borrowers’ repayment capacity.

Khmer.<sup>275</sup> In addition, the reports also do not account for informal debt and none of the BFIs in this case provide specific staff guidance on how to assess or determine the existence of informal debt.<sup>276</sup> Credit ratings are also skewed by the widespread practice among the six BFIs of assessing a client’s repayment capacity by including the income of all household members—even when not all are formal co-borrowers— but not their debt.<sup>277</sup> This results in approved loans that often outweigh a borrower’s ability to repay, as all household income is assumed to be available for debt repayment when it is not.

- *Collateral reliance*: The portfolios of IFC clients and sub-clients involved in this case mostly consist of collateralized loans.<sup>278</sup> Widespread land ownership among microfinance clients has led BFIs to focus on land as the most accessible form of collateral, without adequately considering what hardships losing that land could cause, particularly for low-income households and those with land-based livelihoods.<sup>279</sup> In some cases, BFIs instruct credit officers to request or prioritize the borrower’s “most important” land—typically residential or business property—as collateral. This practice often results in borrowers being approved for larger loans than they need or request.

This approach is inconsistent with GIIP standards,<sup>280</sup> which cautions against using collateral as a proxy for repayment capacity and requires providers to identify and exclude from collateral those assets whose loss would cause severe hardship or significantly reduce a borrower’s ability to earn an income.<sup>281</sup> GIIP recommends that financial providers maintain a list of assets that cannot be pledged as collateral, especially those essential to

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<sup>275</sup> SPTF+Cerise, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Dimension 4.A on Client Protection, <https://bit.ly/3FGgUkJ>. <sup>276</sup> CAO found only one of the six financial institutions digital assessment tool allows borrowers to report loans from a “third party”, with no further explanation to guide credit officers. HQ and branch staff told CAO that credit officers assess informal debt with prospective borrowers themselves, their neighbors, and local authorities.

<sup>276</sup> CAO found only one of the six financial institutions digital assessment tool allows borrowers to report loans from a “third party”, with no further explanation to guide credit officers. HQ and branch staff told CAO that credit officers assess informal debt with prospective borrowers themselves, their neighbors, and local authorities.

<sup>277</sup> One IFC sub-client seems to be the only institution of the six IFC clients/sub-clients that identifies, as a red flag, including the income of a third person in the cashflow analysis while they are not co-borrowers.

<sup>278</sup> While LOLC’s portfolio mostly consists of collateralized loans (79.6% in 2023), in terms of accounts LOLC is the exception with a reported majority of accounts being unsecured (55.8% in 2023). Most of the unsecured accounts are group or individual loans under \$3000, and thus comprise a smaller share of the total loan portfolio than LOLC’s larger secured loans, with an average outstanding balance of \$5,649 in 2023. See LOLC 2023 Annual Report, p.14, <https://bit.ly/3FG1cWH>.

<sup>279</sup> IFC has acknowledged this risk for the past decade, publishing a report in 2015 that identified the practice of requiring land as collateral from poor households with low levels of literacy as a key consumer risk. IFC, Promoting Financial Consumer Protections in Cambodia, 2015, pp. 29–32. Available at <https://bit.ly/3VCU817>. In 2024, IFC noted that this challenge remained, with about 60% of microloans in Cambodia collateralized, the majority by land titles. The link between land and credit in Cambodia’s microfinance sector has become well established, as has the risk of lenders providing large loans based on the value of the borrower’s land rather than his or her repayment capacity. See: Mimoso Special Circular Jun.2023, p.7. FMO, Possible Sector Initiative – Cambodia, p.1, <https://bit.ly/3R7beCL>. “The fact that a fisher or a garment worker making just a few hundred dollars a month can still receive a microloan worth several thousand dollars is evidence that cash flow can hardly be the key determinant in loan size.” A. Seiff, Sokummono Khan, The Danger of Microfinance, *The Dial*, May 30, 2023, <https://bit.ly/4hwQizR>.

<sup>280</sup> Para. 7 of the 2012 Sustainability Policy obligates IFC to seek to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards, including PS1 which requires IFC clients to establish an ESMS to identify and implement mitigation measures for vulnerable people, in accordance with good international industry practice (GIIP).

<sup>281</sup> Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, pp. 21 and 25, <https://bit.ly/41RDorH>

a borrower’s daily survival or primary income earning ability.<sup>282</sup>

CAO’s review identified that only two of the six BFIs in this case had policies identifying certain types of land unacceptable as collateral, including conservation areas and Indigenous Peoples’ land. None of the lenders prohibit the use of primary residential or income-generating land as collateral.<sup>283</sup>

Based on the information reviewed, including CAO’s own field observations, the approval of outsized loans beyond the repayment capacity by IFC clients and sub-clients in this case reveal gaps in the social performance of these investments related to PS1 requirements. These requirements include identifying and assessing social risks and impacts, particularly on vulnerable groups; establishing effective environmental and social management systems aligned with GIIP, including appropriate measures to ensure borrowers’ repayment capacity; and monitoring of client practices to ensure that adverse impacts on affected communities are avoided or mitigated.

#### *b) Early and high-risk refinancing*

Early and high-risk refinancing occurs when a customer replaces an active loan with a new, larger loan to repay existing ones, often without sufficient repayment capacity. For vulnerable people, this can lead to greater indebtedness, reduced ability, if any, to repay, and diminished prospects for financial recovery.

The 2016 Lending Guidelines issued by the CMA and later adopted by the ABC, sought to limit multiple loans and high-risk refinancing. These guidelines restricted lenders from issuing more than three loans to a single client and required categorization of refinancing practices into risk categories (high, medium, and low), reported to the CBC. Despite these measures, reports indicate that high-risk refinancing continued for some years,<sup>284</sup> with increased loan sizes in Cambodia driven in large part by refinancing.<sup>285</sup> For context, a 2020 report found that the number of borrowers grew by 14% between 2015 and 2020 while their loans increased by 158%, outpacing Cambodia’s

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<sup>282</sup> The availability of collateral should not be the primary loan approval criterion. Excessive over-collateralization can create undue hardships for the client if the collateral is liquidated, and careful consideration should also be given to the results of liquidating collateral that is critical to the borrower’s livelihood or home. It is important for lenders to have clear guidelines for what constitutes acceptable collateral. This guidance is related to the standards related to the prevention of over-indebtedness, appropriate product design to prevent harm, and fair and respectful treatment of clients. Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, p. 8, <https://bit.ly/4kw6Dao>, and Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, p.21, <https://bit.ly/41RDorH>. Guidance issued by SPTF+Cerise on the standard to design products to avoid harm to borrowers, indicated that microfinance service providers should have lists of assets that cannot be accepted as collateral “including items that would create severe hardship (e.g. the residence of the borrower and her/his household members) or significant loss of income-earning capabilities (e.g. production equipment and machinery, livestock, etc.),” or “that would deprive the client from essential needs. If clients have no asset to offer as collateral, alternative ways to guarantee their loans are required”. Cerise+ SPTF, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Standard 3B, <https://bit.ly/4mlrsRz>.

<sup>283</sup> Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, pp. 21 and 25, <https://bit.ly/41RDorH>

<sup>284</sup> In 2018, a study found 50% of loans disbursed in 2017 were for refinancing, with 30% above 130% of the original loan amount. Incofin, Incofin spearheads pioneering self-regulatory initiative to prevent over-indebtedness in Cambodia, 2018, <https://bit.ly/3RepKbP>.

<sup>285</sup> See MIMOSA Report Special Circular, Cambodia Land & Credit: Ingredients of a Bubble? June 2023

overall GDP growth of 39% during the same period.<sup>286</sup> Between October 2020 and May 2024, however, CBC Lending Guidelines monitoring data reported that high risk refinancing decreased by 1.7% at the industry level, to below the Lending Guidelines’ 5% limit.

All six IFC clients and sub-clients voluntarily subscribe to the Lending Guidelines and have documented policies aligned with them.<sup>287</sup> However, CAO’s review of client documentation and interviews with borrowers suggest some of these policies still appear to promote refinancing to acquire new clients. Multiple borrowers, including complainants, interviewed by CAO stated that some IFC clients/sub-clients had encouraged them to refinance with larger loans, resulting in unwanted larger debts.<sup>288</sup>

A 2023 national survey by CMA found that 24% of the sample households spent more than 70% of their monthly income on debt repayment.<sup>289</sup> Such a high ratio, especially combined with longer tenures due to refinancing and increased loan sizes, leaves households more vulnerable to cumulative financial pressures and social risks, such as significant decrease of livelihood, food insecurity, or loss of land. While such a debt-to-income ratio may be considered acceptable for microfinance loans of 1–2 years, prolonged exposure to this level of indebtedness can significantly reduce household resilience to income shocks, livelihood loss, or asset forfeiture. This dynamic appears to be a unique feature of the Cambodian microfinance market. Yet, CAO’s review encountered limited evidence that IFC’s client and sub-clients systematically accounted for this potential risk when assessing borrowers’ repayment capacity.

Based on the information reviewed, including CAO’s own field observations, the practice of early and high-risk refinancing reveals gaps in the social performance of these investments related to PS1 requirements to ensure that adverse impacts on affected communities are avoided or mitigated.

### *c) Aggressive lending and collection practices*

Considering the vulnerability of the populations that microfinance loans seek to serve, GIIP emphasizes the need for safeguards to prevent and correct aggressive or abusive treatment by FI

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<sup>286</sup> Microfinance Index of Market Outreach and Saturation (MIMOSA) Report on Cambodia, March 2020, p. 7-8. The report mentions that “the smallest loans of \$500 or less, nearly all of them in rural areas, have gone from 44% of total outreach in 2016 to 17% in 2019 ... Meanwhile, the share of the mid- and large-size loans (\$5,000-20,000) has doubled, and for the largest loans (\$20,000 and above) has tripled.”

<sup>287</sup> The Lending Guidelines impose four rules: (1) Enhanced reporting requirements to the CBC; (2) Limits on multiple loans, with a maximum of 2 individual or 3 group loans; (3) Recognition of the risks of aggressive loan refinancing (which was updated with specific limits in 2018); (4) Promotion of client protection: by (i) acknowledging the importance of productive assets to low income clients and communicating that all possible efforts should be made to avoid selling such assets, especially land, to repay loans; (ii) committing to review incentive schemes to maximize client protection in lending and collection processes; (iii) committing to develop and operationalize clear policies for restructuring and rescheduling loans for clients unable to meet their repayment commitments, in line with Smart Campaign guidelines; and (iv) gradually minimizing the involvement of local authorities as agents in managing village banks, particularly for collection of loan installments. This fourth rule had no specific reporting requirement or monitoring scheme. Three IFC clients/sub-clients’ 2023 Lending Guidelines monitoring reports indicated high and medium risks for refinancing loans within the prescribed limits.

<sup>288</sup> CAO acknowledges that borrowers sometimes seek larger loans, aware that these typically offer longer repayment terms while maintaining similar monthly installments. While refinancing is not exclusively initiated by lenders, the CAO received testimonies indicating that some lenders encouraged borrowers to take out larger refinanced loans than originally requested.

<sup>289</sup> MCRIL-CMA Impact Assessment, 2023, p.49

staff and agents, particularly during loan sales and debt collection processes.<sup>290</sup> Such safeguards should address aggressive sales techniques and inappropriate debt collection practices<sup>291</sup> such as intimidation, abusive language, physical force, limiting physical freedom, sexual harassment, uninvited entry into homes, public humiliation, and threats. In addition to GIIP guidelines related to clients’ rights to respectful treatment during the loan collection process, the Cambodian Consumer Protection Law prohibits all forms of threats and intimidation in the recovery process by banks.<sup>292</sup> The 2017 Ministerial order further prohibits local authorities (e.g., police, village chiefs, commune chiefs, and district governors) from participating in financial providers’ activities or “acting jointly” with financial providers except when following a court order.<sup>293</sup>

At the sectoral level, the 2022 Banking and Financial Institution Code of Conduct prohibits violence, threatening language, abuse, intimidation, and harassment of clients and their relatives, limits the times MFI staff can contact clients, and prevents them from pursuing a consumer who has clearly declined a product.<sup>294</sup>

Despite these safeguard frameworks, CAO’s investigation compiled evidence from borrower testimonies that aggressive practices remained among the six BFIs associated with this case. These practices can lead vulnerable people in Cambodia to acquire outsized loans they do not have the capacity to repay and resort to desperate and harmful coping mechanisms to repay their loans.

### *Aggressive lending practices*

Vulnerable people who take out microfinance loans are often low-income, with low levels of legal and financial literacy, and, in many cases limited proficiency in the Khmer language. As a result, they frequently do not fully understand loan terms, associated fees, and their legal rights regarding payment and collateral enforcement, repayment options, and recourse. They are therefore more susceptible to pressure to acquire loans they do not need and/or do not have the capacity to repay.

Practices reported to CAO include:

- **Persistent in-person promotion:** Many microfinance lenders rely on in-person advertising as their primary sales strategy, which can create social and psychological pressure on communities to borrow.<sup>295</sup> A 2022 study found that villages with about 60% indebted households received 450 visits a month from MFI representatives.<sup>296</sup> CAO reviewed internal training materials from some BFIs that encourage repeated in-person promotion,

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<sup>290</sup> Smart Campaign, SPTF, Cerise, The Client Protection Principles, <https://bit.ly/3Fqg2AR>.

<sup>291</sup> Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, p. 31

<sup>292</sup> Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, p.31 “no person shall exert coercion by force, disturbance or mental threat with respect to the supply of goods and services or payments for the goods and services” Article 19 of the Consumer Protection Law –Royal Government of Cambodia (2019). Law on consumer protection (NS/RKM/1119/016). Phnom Penh. The Cambodian law on consumer protection does not cover financial services of non-bank providers.

<sup>293</sup> Ministry of Interior. (2017). Ministerial order (Prakas) No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators. Phnom Penh.

<sup>294</sup> Banking and Financial Institutions Code of conduct, 2022, pp.10-11, <https://bit.ly/41ZQnX8>.

<sup>295</sup> In August 2025, one of the BFIs mentioned that as of 2025 they have developed a new Guideline on Ethical and Responsible Sale Practices (including Aggressive Sales) to comply with Client Protection Standards.

<sup>296</sup> Bliss report, p.72

including home and workplace visits, even when customers might not be ready for a loan.<sup>297</sup>

- **Loan sizing based on collateral value** rather than repayment capacity. Interviewees stated they were persuaded to take larger loans than initially requested based on the value of their collateral rather than on their actual needs or ability to repay, increasing the risk of over-indebtedness.
- **Involvement of local authorities** in loan promotion. Interviewees reported that village and commune chiefs were often involved in advertising loan products, and in some cases in loan sales despite the government prohibition on such involvement.<sup>298</sup> CAO observed that the sales strategies of two IFC clients/sub-clients explicitly instruct staff to involve local authorities in advertisements and targeting of potential clients, one of them in exchange for benefits.

### *Aggressive collection practices*

IFC clients and sub-clients involved in this case have generally endorsed principles of fair and respectful treatment of borrowers and adopted codes of ethics, training, and policies prohibiting threats and coercion and requiring fair and respectful treatment of their clients. For example, two of the IFC clients/sub-clients provide staff with training programs and lists of appropriate and inappropriate practices (the latter including placing 'for sale' signs on borrowers' houses, locking their homes, or confiscating assets like cars, furniture, and livestock).

Despite these efforts, CAO received multiple reports of practices inconsistent with these commitments.<sup>299</sup> Beyond this case, sector stakeholders and studies further acknowledge some deceptive collection practices and reports of some BFI field staff using coercive loan recovery tactics such as 'reporting to the police' or threats of community pressure or legal action.<sup>300</sup> A survey conducted in 2023 of 2,939 Cambodian borrowers reported that only 40% 'strongly agree' that financial providers' agents treat them fairly and respectfully, compared with 68% of clients in other Asian countries.<sup>301</sup>

Aggressive loan recovery practices can put pressure on vulnerable people to adopt desperate and harmful solutions to meet repayment demands. Examples from complainant testimony include: selling their land or house, sometimes below market value and, in some cases, disposing of their primary source of income; reducing food quantity and quality; withdrawing children from school

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<sup>297</sup> CAO notes that only one BFI named in this complaint appears to clearly prohibit lending when customers do not need funds. In August 2025, one of the BFIs mentioned that as of 2025 they have developed a new a Guideline on Ethical and Responsible Sale Practices (including Aggressive Sales) to comply with Client Protection Standards.

<sup>298</sup> Specifically, those that could create misunderstanding among the general population between state initiatives and private sector activities including specifically acting as agents in loan sales. Ministry of Interior. (2017). Ministerial order No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators. Phnom Penh.

<sup>299</sup> The information was received through interviews of clients of the BFIs involved in this complaint, including non-complainant borrowers, as well as through review of relevant studies.

<sup>300</sup> Incofin, Microfinance in Cambodia in 8 burning questions, September 2023, <https://bit.ly/43URuKg>; The Bliss report, concluded that such cases are a minority or even anecdotal (less than 1% of cases), Bliss report p.67; <https://bit.ly/4hQ9b15>; <sup>300</sup> L.Goldstein, E.Sea, Green bonds, red flags: Cambodia's microfinance crisis deepens amid sustainability push, Dialogue Earth, October 10, 2024, <https://bit.ly/3DvJzrT>

<sup>301</sup> 60decibels Survey, p.8

and putting them to work; family members migrating to find work, often in unsafe or exploitative conditions; and taking on larger loans or borrowing from informal lenders.

During the course of this investigation, borrowers, including the complainants, reported to CAO that lenders in this case employ some of the following aggressive collection practices:

- **Frequent and prolonged visits:** Borrowers reported frequent visits to their homes, workplaces, and villages by BFI staff, sometimes multiple times a week.<sup>302</sup> These visits often extended for hours and, in some cases, involved local officials. CAO reviewed training materials from some BFIs that instruct staff to apply psychological pressure during collections, including repeated calls and urging borrowers to sell land. Many borrowers perceived these tactics as intimidation and threats. In line with public reporting,<sup>303</sup> complainants described repeated visits where some BFI staff exhibited aggressive, scolding, or threatening behavior, including bringing local officials. In some cases, gender dynamics are at play, with female borrowers or female family members at the receiving end of the threats, pressure, or visits where collection officers impose their presence in a borrower’s home for hours. Documentation reviewed by CAO indicates that some of IFC’s clients and sub-clients include in their recovery processes the practice of reaching out to relatives, employers, or other people with influence over borrowers behind on their payments.<sup>304</sup> Given the cultural associations between debt and shame, this behavior may be perceived as coercive, and the pressure would intensify to the extent local authorities are involved.<sup>305</sup>
- **Involvement of village and commune chiefs in debt recovery:** Despite the Ministry of the Interior order in 2017 prohibiting local authorities from engaging in debt collection,<sup>306</sup> five of the six BFIs have policies that include seeking support from local authorities for debt collection strategies. Borrowers interviewed by CAO reported that all six IFC clients and sub-clients involved local authorities in their debt collection processes<sup>307</sup> by requesting village or commune chiefs to write to late debtors or summon them to their offices or public halls to explain their difficulties, or state their intentions regarding repayment. According to complainants, civil society, and academics with knowledge of the Cambodian social context, these practices can create fear, anxiety, and shame among microfinance

<sup>302</sup> 15 complainants perceived unwanted staff presence in their house or village as intimidating.

<sup>303</sup> One borrower explained to a news outlet: “They would come to my home with several people, three to five motorbikes, and also bring the village chief with them,” she said during a recent interview with VOA Khmer. She couldn’t handle the stress and shame. She abandoned her home and rented a room for \$40 a month. Narin Sun, Cambodians face mounting pain from microfinance debt, VOA, April 7, 2024, available at: <https://bit.ly/4hQ9b15>

<sup>304</sup> In addition to the BFIs’ training documents, six complainants reported BFIs named in this investigation reached out their relatives regarding their overdue debt.

<sup>305</sup> Green, Bylander, *The Exclusionary Power of Microfinance*, 2021, p.219-220.

<sup>306</sup> Ministry of Interior. (2017). Ministerial order No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators. Phnom Penh. The text of the order indicates that “Unless legally required to engage in the enforcement of a court judgement, district/Municipality/Khan, commune/Sangkat, and village authorities shall not act jointly with private banks, MFIs and rural credit operators, (which causes misunderstanding among people that these banks, MFIs and operators are state-owned) including serving as guarantors in a loan transaction or as agents or debt repayment guarantors, or demanding repayment from people, advertising for any financial institution, or taking part in seizing people’s collateral.”

<sup>307</sup> Five of the complainants were summoned to their village and commune chief by four IFC clients/sub-clients when they could not repay the debt CAO received evidence of twelve letters, dated between 2019 and 2023, inviting or summoning borrowers to meetings with local authorities in relation to their late loans with three of IFC clients/sub-clients.

borrowers.<sup>308</sup> IFC and one of the BFIs included in this case argue that some of these practices are not prohibited under Cambodian regulations as they may fall within the local authorities’ role to mediate and assist in resolving disputes. At the same time, another BFI recently issued a reminder to staff to refrain from seeking local authority support for loan resolution outside the court system, as it was prohibited by government regulation.

Determining whether the practice of involving local authorities violates the particular national sub-decree is outside CAO’s mandate and a matter for the national authorities. Regardless of whether village and commune chiefs act in a formal mediation role or otherwise, CAO has consistently heard from complainants, civil society, and academics that local authorities are powerful actors in the daily life of villagers in Cambodia.<sup>309</sup> And these practices can create fear and confusion among vulnerable borrowers, many of whom are not fully aware of the distinction between the government and private actors. Addressing this problem appears to be one of the main purposes of the sub-decree. The combination of local power, shame, and moral responsibility often drives vulnerable borrowers to adopt coping strategies to repay their debt.<sup>310</sup> Five of the eight complainants who faced an actual or threatened summons to local authorities regarding their late debts ended up selling some of their land to pay off the IFC client/sub-client, losing part of their livelihood in the process (see more details in section 5.2).

- **Threats related to land or house confiscation:** Land is the most common form of collateral used for microfinance loans in Cambodia, with 12 complainants in this case pledging soft titles to IFC clients/sub-clients.<sup>311</sup> While Cambodian law on security rights does not grant creditors the direct power to confiscate collateral with such actions only carried out by the courts,<sup>312</sup> during its investigation, CAO had access to IFC client and sub-client training materials that direct staff to apply psychological pressure on borrowers to sell land during debt collection. Judicial enforcement of collateral is extremely rare for microfinance loans.<sup>313</sup> However, the use of soft titles as collateral, and the fact that BFIs retain the physical copies of the titles, can exert social pressure,<sup>314</sup> and when vulnerable

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<sup>308</sup> Green, Bylander, *The Exclusionary Power of Microfinance*, 2021, p.220.

<sup>309</sup> N. Green, *Regulating Over-indebtedness: Local State Power in Cambodia’s Microfinance Market*, Development and Change, International Institute of Social Studies, 2020

<sup>310</sup> Green, Bylander, *The Exclusionary Power of Microfinance*, 2021, p.220. More than half the complainants in this CAO case who have been summoned to the local authorities, such as the village or commune chief or threatened with such a summons, sold some of their land to pay off debt.

<sup>311</sup> Microfinance Centre (MFC), *Good Return, CBC, Over-Indebtedness Study Cambodia II: Final Report*, October 2017, pp. 62-63 and MIMOSA Report on Cambodia, March 2020, p. 7.

<sup>312</sup> Article 334 of Cambodian Civil Code Procedures 2006.

<sup>313</sup> Due to the Cambodian land tenure system, most landowners do not possess official ownership titles (hard titles) but "soft titles," which are letters of possession signed by local commune authorities. Soft titles are generally accepted as collateral by microfinance institutions and banks. In this case, lenders take physical possession of the title documents, and return them upon the full repayment of the loan. Article 40 of Cambodia 2001 Land Law, <https://bit.ly/3IliynWh><https://bit.ly/3ISheid>. Sovannroeun Samreth, Daiju Aiba, and Vandy Phal, *Financial Literacy Among Microfinance Borrowers: Its Importance and Determinants from a Household Survey in Cambodia*, JICA Ogata Research Institute Discussion Paper, 2024, pp.11-12, <https://bit.ly/3DEdsGU>; S. Hem, *The Land Registration Process in Cambodia: Background, Procedures, and Outcomes*, *Cambodian J. Int. Stud.*, 2019, p.56, <https://bit.ly/3FQRFw2>. IFC’s clients and sub-clients did not provide data on collateral enforcement but generally indicated that it was a last resort measure.

<sup>314</sup> Bliss report, p. 56

borrowers face loan default they are often coerced into selling their land.<sup>315</sup> In a 2021 advisory concept note, IFC itself highlighted the practice of coerced land sales to repay debts as a pressing concern.<sup>316</sup> CAO’s review of BFI policies suggests that only three IFC clients/sub-clients explicitly prohibit the confiscation of land or forced sale of collateral through pressure and threats. One sub-client’s policy reviewed by CAO contains instruction for staff to encourage clients to sell their collateral for overdue debt, and to ask local authorities to assist them in such encouragement.

In interviews with CAO, borrowers described threats of land or house confiscation, or of selling the land below market value, if borrowers did not repay their loans.<sup>317</sup> According to borrower accounts, such threats were made by staff from all six IFC clients and sub-clients involved in this case. Because land titles are held by BFIs, borrowers perceive the threat of land and house repossession in the event of default as a genuine risk, especially if they lack a legal understanding of foreclosure, or their rights regarding their land and in a repossession process. This perception is further reinforced when local authorities, who have no formal legal role in foreclosure or repossession procedures, participate in debt collection activities, creating the appearance of a legally enforceable process.

CAO notes that, given the vulnerability of many borrowers, BFI staff statements or actions, even when not intended as explicit threats, may be perceived as such by individuals with limited understanding of the financial system and their legal rights. Interviews conducted by CAO with borrowers revealed that many had little knowledge of their legal protections. Common misconceptions included the belief that a microfinance institution could sell their land if they were even one day late in making a repayment, and that, if they did not sell the land themselves, the lender could dispose of it at below-market value without a judicial process. Most borrowers interviewed were unaware that such threats are explicitly prohibited under the Cambodian Consumer Protection Law, and that licensed financial institutions are required to maintain grievance mechanisms through which borrowers can report such practices and seek recourse.

- **Harmful advice by staff to borrowers on how to repay loans:** While IFC clients and sub-clients tend to consider harmful advice provided by BFI staff isolated incidents, CAO received numerous testimonies consistent with research studies and media reports about harmful suggestions made by BFI staff on how to repay debt. Borrowing from the informal market or moneylenders is a frequent coping mechanism used by Cambodian microfinance

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<sup>315</sup> All 15 complainants who sold or put their land up for sale to repay their microfinance debt did so outside the court system. Multiple reports have documented instances where borrowers who are significantly late on their repayments face threats from loan officers to seize their land, forcing them to sell it. N. Green, *Regulating Over-indebtedness: Local State Power in Cambodia’s Microfinance Market, Development and Change*, International Institute of Social Studies, 2020, p.3 Green, Bylander, *The Exclusionary Power of Microfinance*, 2021, p.219, M. Bateman, *Land Titling and Microcredit in Cambodia: Examining the Reality of Hernando de Soto’s “Three Steps to Heaven”*, Land, 2024, p.10

<sup>316</sup> The recent 60decibels report found that 2% of 2,939 Cambodian clients surveyed reported pressure to sell an asset to make a repayment. 60decibels Survey, p.8. Number of Active Microfinance Clients in the country is based on data from the Cambodia Microfinance Association from 2022.

<sup>317</sup> Eight complainants reported receiving threats of land or house confiscation from four of IFC clients’/sub-clients’ staff. Three complainants who reported such threats sold some land to pay back their loans. CAO also received evidence of credit officers of one of these BFIs explaining the bank’s procedure to a complainant and advising her to sell her land before it was auctioned off at a below-market price.

borrowers.<sup>318</sup> Based on the documentation shared with CAO by the BFIs in this complaint, only one seemed to explicitly prohibit staff from asking their client to borrow from informal lenders to repay. Ten borrowers interviewed by CAO, including some complainants, reported that some IFC clients and sub-clients’ staff advised or asked defaulting clients to borrow from an informal moneylender or pawn shop to repay their debt, often at extremely high interest rates (above the legal limit for BFIs) and without legal protections.<sup>319</sup> Some borrowers acted on this advice. Two complainants also reported that field officers encouraged them to withdraw their children from school to save on school fees or so that they could work to help repay debts. CAO also received reports from three borrowers (non-complainants in this case) alleging that representatives from an IFC client suggested they “sell” their children to repay loans.<sup>320</sup> CAO has no further details on these reported suggestions, and none of the families acted on them. However, all three households reported psychological distress as a result, particularly female members who perceived these as genuine threats given that child trafficking and child labor are known risks in Cambodia.<sup>321</sup> CAO emphasizes that it cannot determine whether these incidents occurred as alleged. The testimonies are presented here to illustrate concerns about the adequacy of safeguards to prevent inappropriate behavior from frontline staff, who are in direct contact with vulnerable borrowers.<sup>322</sup>

CAO notes that the aforementioned practices and suggestions are not formally endorsed by the six BFIs or included in their documented policies. However, IFC’s lack of E&S review and monitoring of client/sub-client lending and collection practices to ensure alignment with GIIP<sup>323</sup> created a significant blind spot regarding the risks and impacts from poor

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<sup>318</sup> MCRIL-CMA Impact Assessment, 2023, p. 52, and Bliss report, p. 39.

<sup>319</sup> In 2017, the National Bank of Cambodia (NBC) issued sub-decree (*Prakas*) to cap interest rates at 18% per year for loans issued by MFIs. Informal moneylenders do not fall under the regulation of the NBC and thus charge on average between 5% and 10% interest per month. In some extreme cases, although not uncommon, moneylenders in Cambodia have charged 1% per day (30 per cent per month) or 10% per week (40% per month). Other legal protections such as the formal process for foreclosure See: Sub-decree (*Prakas*) on the Interest Rate Cap, 2017, Article 3,4 : <https://bit.ly/4iKjTXC>; Bliss report, p. 65, W. Nathan Green, Theavy Chhom, Reach Mony and Jennifer Estes, *The Underside of Microfinance: Performance Indicators and Informal Debt in Cambodia*, Development and Change, Volume 54, Issue 4, International Institute of Social Studies, June 2023, <https://bit.ly/4kPOMe7>

<sup>320</sup> T.Wester, ‘They suggested I sell my daughter’: The dark side of global microfinance, *The Telegraph*, June 2024, <https://bit.ly/3Rk5OV7>. Although this was not included in the complaint filed with CAO in 2022, during the mission, CAO received testimonies from community representatives about such suggestions and learned about three alleged incidents involving field officers from an IFC client suggesting to members of Indigenous Peoples communities that they sell children aged between 11 and 15. In all three cases, the incidents were isolated and the officers did not come back afterward. It remains unclear whether they were dismissed or transferred to a new location.

<sup>321</sup> US Embassy in Cambodia, 2024 Trafficking in Persons Report: Cambodia, 2024, <https://bit.ly/4iB2EZb>; UN Report of the Special Rapporteur on the situation of human rights in Cambodia, Vitit Muntarbhorn, A/HRC/57/82, Aug.2024, <https://bit.ly/4bSj6S7>; 2022 Country Reports on Human Rights Practices: Cambodia, US Department of State, <https://bit.ly/3XsqQez>.

<sup>322</sup> CAO Policy, para. 117.

<sup>323</sup> SPTF+Cerise, Client Protection Standards, standard 4C. This standard entails that the financial providers have policies that include lists of appropriate and inappropriate debt collection practices, that there is a known process and schedule the collections that allows time for the debt collector to determine the reasons for a client’s default and for the client to find solutions, but also that the borrowers be informed verbally or in writing, about what are prohibited behaviors. GIIP is clear that having the policies is not enough, and that field staff need to be trained and monitored whether they comply with the policies and must be trained to inform borrowers consistently about the expected and unacceptable staff behaviors. Borrowers should understand what staff behavior to expect and what is prohibited, so that in case they feel a staff is overstepping the boundaries, they clearly know they don’t have to suffer it and that they should report it to the provider. SPTF+Cerise, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Dimension 4 on Client Protection, <https://bit.ly/4dMfmTr>

implementation of BFI policies, and inappropriate staff practices, on vulnerable borrowers targeted by these investments.

Additionally, staff incentives, while generally effective for improving overall FI sales or collection target performance, can also have the unintended effect of pressuring staff to focus on growth instead of portfolio and service quality.<sup>324</sup> For context, since 2010, CGAP identified that under pressure to meet targets, and with limited supervisory oversight, frontline BFI staff occasionally resort to unsavory collection practices that do long-term damage to client relationships.<sup>325</sup> In line with these observations, GIIP standards recommend that staff incentives schemes should not promote aggressive sales, but instead balance sales and social performance criteria, such as portfolio quality and level of compliance with client protection practices, to ensure that sales staff exercise appropriate care in disbursing loans that clients need and can repay.<sup>326</sup> Of the six Cambodian BFIs in this case, three integrate some social performance criteria in their staff incentive schemes.<sup>327</sup> CAO considers the limited consideration of social criteria by these BFIs in incentive schemes for loan and collection officers an important factor for IFC and its clients to consider when assessing these institutions’ compliance with GIIP standards. GIIP requires that lenders avoid aggressive sales and collection practices that can adversely impact vulnerable borrowers.

Based on the information reviewed, including CAO’s own field observations, the lending and collection practices of IFC’ clients and sub-clients in this case reveal gaps in the social performance of these investments related to PS1 requirements. They include the identification and assessment of social risks and impacts, particularly on vulnerable groups; the establishment of effective environmental and social management systems which follows GIIP standards, including the measures regarding respectful treatment of clients; and the monitoring of client practices to ensure that adverse impacts on affected communities are avoided or mitigated.

#### **4.2.2 Consideration of IFC project and sub-project E&S performance related to PS7 requirements regarding Indigenous Peoples**

IFC’s microfinance clients in Cambodia operate in areas where Indigenous Peoples (IPs) live. In 2018, a UN study reported that 70-80% of Indigenous households surveyed in three Cambodian provinces were indebted through microfinance loans or to other types of credit.<sup>328</sup> In addition to

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<sup>324</sup> CGAP, Greg Chen, Stephen Rasmussen, and Xavier Reille, Growth and Vulnerabilities in Microfinance, Focus Note, February 2010, p. 10-11. <https://bit.ly/4iKaYFC>. During the Factual Review and Comment phase, one sub-client noted that they maintain a ceiling on the maximum loan portfolio per Credit Officer to discourage exceeding this limit.

<sup>325</sup> CGAP, Greg Chen, Stephen Rasmussen, and Xavier Reille, Growth and Vulnerabilities in Microfinance, Focus Note, February 2010, p. 11. <https://bit.ly/4iKaYFC>.

<sup>326</sup> SPI Online, A guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, 4.C.2.2.2, <https://bit.ly/41XKxWg>.

<sup>327</sup> All three BFIs review their employees’ compliance with the Code of Conduct and any complaints an officer received, with oversight from credit quality assurance teams who conduct field visits and risk officers who review the files, as part of the staff’s incentive scheme, and not only base it in their number of sales and collections. During the Factual Review and Comment phase, one sub-client noted that they maintain a ceiling on the maximum loan portfolio per Credit Officer to discourage exceeding this limit.

<sup>328</sup> The OHCHR study surveyed ten Indigenous Peoples communities in the provinces of Ratanakiri, Mondulakiri and Kratie. These ten communities were among the 18 communities in Cambodia that had collective land titles at the time the study was carried out in 2017. OHCHR Cambodia, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous Peoples communities in the Provinces of Ratanakiri, Mondulakiri and Kratie, October 2018, pp. 7 and 25, <https://bit.ly/4bSh11P>.

the general impacts on affected communities described above, the widespread practice of requiring land as collateral has led to Indigenous Peoples losing land, undermined Indigenous land titling processes, and contributed to conflicts within Indigenous communities.<sup>329</sup>

In relation to this case, seven of the individual borrowers who brought the CAO complaint are Indigenous. IFC’s E&S policies contain specific provisions to prevent harm to Indigenous Peoples from activities it finances, including requiring IFC to ensure its clients assess impacts and implement measures that comply with the Performance Standards.<sup>330</sup> Performance Standard 7 (Indigenous Peoples, PS7) recognizes that Indigenous Peoples are often among the most marginalized and vulnerable segments of the population, and that their vulnerability may expose them to loss of identity, culture, and natural resource-based livelihoods, as well as an increased risk of impoverishment.<sup>331</sup> PS7 applies to “all communities of Indigenous Peoples within the project area of influence who may be affected by the project.”<sup>332</sup> In such circumstances, IFC clients are required to assess and mitigate project-related E&S risks and impacts based on the informed consultation and participation of the affected Indigenous communities.<sup>333</sup> The IFC Exclusion List also specifies that microfinance providers must not pursue “activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.”<sup>334</sup> CAO notes that these prohibitions under PS7 and the Exclusion List do not depend on legal recognition of the land or stage of the ICLT process.

In addition to meeting the above PS7 requirements, IFC’s clients must comply with applicable national law and the host country’s obligations under international law. In this case, Cambodian national law explicitly prohibits lenders from accepting Indigenous Collective Land Titles (ICLTs) as collateral (see section 1.2). Good international industry practice also advises microfinance providers to design products in ways that avoid harm to clients and benefit them.<sup>335</sup>

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<sup>329</sup> See section 5.3 and De Lange, Emiel, Raj, Sushil Raj, and Yun Mane, Indigenous land rights are key to conservation in Cambodia (commentary), *Mongabay*, December 2023, <https://bit.ly/4kRGAob>; Baird, Ian G., Indigenous communal land titling, the microfinance industry, and agrarian change in Ratanakiri Province, Northeastern Cambodia, *The Journal of Peasant Studies*, 2024.

<sup>330</sup> IFC Sustainability Policy (2012), para. 7.

<sup>331</sup> 2012 PS7, para. 1

<sup>332</sup> 2012 PS7, para. 8.

<sup>333</sup> 2012 PS7, para. 9.

<sup>334</sup> The IFC Exclusion List, available here: <https://bit.ly/4hNPcA6>. IFC PS7 defines IFC’s minimum requirements for this “full documented consent” and reminds that “indigenous land” is in most cases not an individual or household asset, but traditionally-owned, customarily-used by and/or culturally significant for indigenous communities. 2012 PS7, para. 12-13.

<sup>335</sup> Under the Smart Campaign, this was the standard related to “appropriate product design and delivery”, for which it was expected that financial providers “will take adequate care to design products and delivery channels that do not cause clients harm” and would design products and delivery channels “with client characteristics taken into account”. Smart Campaign, standard 1. Under the SPTF+Cerise model, this standard is drafted so that a “provider’s products, services and channels benefit clients”, which it is explained to mean, among other things, “products should minimize barriers to entry by allowing [...] loan collateral guarantees adapted to the assets of economically excluded populations [...] etc. and that “A policy based on local norms should describe acceptable and unacceptable pledges of collateral [...]. Such policy should not accept collateral items that would create severe hardship or affect the client’s earning ability or deprive the clients from essential needs. [...] If clients have no asset to offer as collateral, alternative ways to guarantee their loans are required like guarantor, pledge on vehicle, etc.” SPTF+Cerise, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management.

In relation to this case, CAO observed the following gaps between the lending and collection practices of the six BFIs and IFC’s E&S requirements regarding Indigenous Peoples that are relevant to CAO’s assessment of IFC’s compliance with its Sustainability Framework.

*a) Acceptance of land collateral within IP land, without community consent*

Performance Standard 7 and the IFC Exclusion List prohibit activities that impinge on Indigenous Peoples’ (IP) lands, whether that land is legally recognized or under adjudication, without their full, documented consent. This includes the use of such land as collateral for loans.

Cambodia has national legal restrictions for accepting soft titles that overlap with Indigenous Collective Land Titles (ICLTs) as collateral for loans. Despite these restrictions, the UN OHCHR, Cambodian government, and industry associations have indicated or acknowledged that Indigenous Peoples often use soft titles that overlap with IP communal land as collateral to access loans, and microfinance lenders are accepting them.<sup>336</sup> OHCHR states that IPs act this way in part due to the pressure and coercive practices of financial institutions.<sup>337</sup> As described in section 4.2.1, CAO’s review of borrower testimonies, civil society reports, and public studies indicates that the over-reliance of microfinance providers on land collateral, combined with their lack of alternative products that do not require collateral, contributes to situations where IP borrowers offer communal land as collateral. Studies reported that in some cases this has led to deforestation or the relinquishment of formal communal land recognition in order to maintain access to credit.<sup>338</sup>

This practice presents risks to the integrity of Indigenous Peoples’ community land, culture, and access to natural resources, risks that PS7 is intended to avoid. Using individual plots of land within community land as collateral can fragment the broader community land base, in some cases leading to sales of IP land to non-IP community members. It can also reduce the extent and use of community forests and their use for natural resources, and compromise the use and enjoyment of the communal land as an indivisible entity with cultural and spiritual significance, owned collectively by the community.<sup>339</sup> These risks have been documented in reports by OHCHR and Cambodian civil society organizations, and described firsthand

Staff of the six IFC clients and sub-clients named in the complaint stated to CAO that they do not

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<sup>336</sup> OHCHR Cambodia, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People communities in the Provinces of Ratanakiri, Monduliri and Kratie, October 2018, p. 27, <https://bit.ly/4bSh11P> and Brook, Jack, “Land loss and debt: the bottom line for misleading microloans”, *South East Asia Globe*, May 2022, available at <https://bit.ly/44C6L0s>, and ABC and CMA joint press release on the list of prohibited collaterals, 16 August 2024. During the Factual Review and Comments phase, two additional BFIs informed CAO that they also have policies prohibiting the use of ICLT titles as collateral. CAO has not independently verified these policies.

<sup>337</sup> OHCHR Cambodia, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People communities in the Provinces of Ratanakiri, Monduliri and Kratie, October 2018, p. 27, <https://bit.ly/4bSh11P>.

<sup>338</sup> De Lange, Emiel, Raj, Sushil Raj, and Yun Mane, Indigenous land rights are key to conservation in Cambodia (commentary), *Mongabay*, December 2023, <https://bit.ly/4kRGaob>; Baird, Ian G., Indigenous communal land titling, the microfinance industry, and agrarian change in Ratanakiri Province, Northeastern Cambodia, *The Journal of Peasant Studies*, 2024.

<sup>339</sup> Baird, Ian G., Indigenous communal land titling, the microfinance industry, and agrarian change in Ratanakiri Province, Northeastern Cambodia, *The Journal of Peasant Studies*, 2024.

accept land titles for Indigenous community land.<sup>340</sup> However, IP borrowers interviewed by CAO, CSOs, and public reports assert that many BFIs accept soft titles that overlap with Indigenous land, without the consent of the community. All seven IP complainants reported that four IFC clients/sub-clients accepted soft land titles that overlapped with their ICLT certificates. Six of seven also reported that these BFIs did not offer unsecured loans when the complainants first engaged with the banks or microfinance institutions. In one ICLT-certified community, an IP complainant reported that staff from an IFC sub-client was aware of land overlaps but did not view the practice as illegal and accepted the overlapping soft title as collateral for individual loans without additional requirements. Another IP complainant reported pledging his plot of land within his community’s ICLT as collateral for loans from that same sub-client, and later feeling pressured to sell this plot to a non-community member after allegedly being threatened by the credit officer with seizure of his land. According to this complainant, the IFC sub-client did not ask whether his soft titles overlapped with community ICLT when he applied for loans.<sup>341</sup>

CAO was also informed by community representatives that, in May 2022, Hattha Bank returned 16 soft titles to the members of an ICLT Committee in Ratanakiri Province, which overlapped with the ICLTs of Kreung communities.<sup>342</sup> CAO does not have information on when these ICLTs were taken as collateral or what prompted their return, but notes that Hattha Bank was undergoing a more thorough assessment of responsible finance practices at this time with support from IFC Advisory Services (project #606119 – see sections 4.1 and 4.3). CAO observes the lack of detailed guidelines and procedures, from either the government or industry associations, to assess whether a microfinance borrower’s soft title might overlap with IP land. Lenders mainly rely on the local authorities (village and commune chiefs) to provide this information. However, according to interviews and reports reviewed by CAO, this method of verification is often insufficient because local authorities continue to issue soft land titles that overlap with ICLT, often in exchange for payments of US\$50-100 per title issued.<sup>343</sup> CAO notes that IFC’s E&S specialists’ knowledge and expertise on Indigenous Peoples issues could have been of particular benefit to its clients and sub-clients on this matter. However, CAO found no evidence that IFC provided advice and guidance on methods and processes to identify Indigenous land, particularly land not yet formally recognized,<sup>344</sup> or on how to incorporate such processes within client operations, including policy and procedures, to prevent adverse impacts to Indigenous Peoples.

Based on the information reviewed, including CAO’s own field observations, CAO identified gaps in the social performance of IFC’s investments with PS7 and IFC Exclusion List requirements to avoid adverse impacts on Indigenous Peoples and protect their lands and resources.

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<sup>340</sup> Only one IFC client has explicitly listed land involving Indigenous communities as unacceptable collateral in their policy document verified by CAO. During the Factual Review and Comments phase, three additional BFIs informed CAO that their policies also prohibit the use of ICLT titles as collateral. CAO has not verified the explicit prohibitions in their policies.

<sup>341</sup> For example, an IP complainant said that when she applied for a loan in 2019, the officer did not ask if the soft titles overlapped with the ICLT.

<sup>342</sup> Res, Phasy. forthcoming. Microfinance mutation: frontier capitalism, debt violence, and local contestation in northeast Cambodia. PhD dissertation., Paris 1 Panthéon-Sorbonne University.

<sup>343</sup> Brook, Jack, Land loss and debt: the bottom line for misleading microloans, *Southeast Asia Globe*, May 4, 2022, Available at: <https://bit.ly/3SNDDyP>

<sup>344</sup> CAO notes that only one of IFC’s clients seems to have explicitly listed land involving IP communities as unacceptable collateral. Positively, it did not tie this restriction to the existence of formally recognized ICLTs.

*b) Lenders in majority-IP areas do not offer products that take into account IP culture in Cambodia and could benefit Indigenous communities*

Under IFC’s Environmental and Social (E&S) requirements (PS7) clients are required to avoid adverse impacts on Indigenous Peoples,<sup>345</sup> and to ensure that any activities affecting them are based on informed consultation and participation. The IFC Exclusion List further prohibits microfinance activities that impinge on the lands of Indigenous Peoples, without their full, documented consent.<sup>346</sup> In addition, GIIP for microfinance investments, required to be applied under PS1, calls for financial products to be designed in ways that avoid harm to BFI clients and benefit them. This includes adapting products to the specific needs and circumstances of the communities served.<sup>347</sup> However, CAO notes that IFC clients and sub-clients work in majority-IP areas of Cambodia without offering products that take into account their culture. While some BFIs accept various forms of collateral—such as cash, movable assets or guarantees—these options are not specifically tailored to the needs of Indigenous Peoples and represent a limited share of BFIs’ portfolios.<sup>348</sup> For example, CAO did not find evidence of products specifically designed to reduce the risk of land loss for Indigenous borrowers, such as larger loans.<sup>349</sup> Instead, the majority of products offered by IFC clients and sub-clients require land as collateral, without apparent consideration of the particular harm that losing land due to repayment difficulties could cause to Indigenous Peoples.<sup>350</sup>

The potential risk of harm is significant because:

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<sup>345</sup> 2012 PS7, paras. 8 and 9.

<sup>346</sup> The IFC Exclusion List, available here: <https://bit.ly/4hNPcA6>. IFC PS7 defines IFC’s minimum requirements for this “full documented consent” and reminds that “indigenous land” is in most cases not an individual or household asset, but traditionally-owned, customarily-used by and/or culturally significant for indigenous communities. 2012 PS7, para. 12-13.

<sup>347</sup> For example, larger group loans without collateral – a common practice in Cambodia – were not offered at scales that could meet community needs. Instead, the products offered and financed did not appear to take into account the potential harm that loss of land, due to repayment difficulties, could cause to Indigenous Peoples.

<sup>348</sup> Hattha Bank 2024 Audited Financial Statements, p. 103, <https://bit.ly/3Vlljsj><https://bit.ly/3Vlljsj>; ACLEDA 2024 Audited Financial Statements, p. 117, <https://bit.ly/4nlxhyc>; Amret 2024 Annual Report, p. 115, <https://bit.ly/3WpH8Nn>; PRASAC 2024 Annual Report, p. 59, <https://bit.ly/4nYvepz>. Bliss report, p. 67, <https://bit.ly/3XRpDXv>; M-CRIL – CMA Impact Assessment 2023, p.59. While LOLC’s portfolio also has a majority of collateralized loans, a significant portion (43%) of its loan portfolio is made up of group loans which are not collateralized. IFC clients and sub-clients primarily offer collateralized individual loans. LOLC 2023 Annual Report, p.14, <https://bit.ly/3FG1cWH>.

<sup>349</sup> As in much of the global microfinance sector, BFIs in Cambodia initially relied heavily on group lending. This approach was based on the premise that repayment rates improve when borrowers are collectively liable, even in the absence of collateral. Group loans dominated the sector until well into the 2010s, but have since been largely replaced by individual loans, which now constitute the dominant lending model. See: Data from MIX Market: <https://bit.ly/41KUNAZ>; W. Nathan Green, Theavy Chhom, Reach Mony and Jennifer Estes, The Underside of Microfinance: Performance Indicators and Informal Debt in Cambodia, Development and Change, Volume 54, Issue 4, International Institute of Social Studies, June 2023, <https://bit.ly/4kPOMe7>.

<sup>350</sup> Six out of the seven IP complainants reported that four IFC clients/sub-clients did not offer unsecured loans when they first approached the BFI agents or when the agent approached them.

- IP livelihoods in Cambodia are reliant on land, making them particularly vulnerable to its loss.<sup>351</sup>
- IP identity is tied to their land and its loss could harm their collective memory, history, and cultural heritage, which is deeply embedded in the natural landscape and access to natural resources.<sup>352</sup>
- Most Indigenous communities in northeast Cambodia are matrilineal (where land is passed from mothers to daughters) and matrilocal (where daughters remain in their mother’s village), providing economic protection and personal security for women.<sup>353</sup> The loss of land due to lack of repayment capacity harms women in particular and the preservation of these matrilineal lines.

Based on the information reviewed, including CAO’s own field observations, the lack of adapted products and practices to the specific needs and circumstances of the communities served by IFC clients and sub-clients in this case reveal gaps in the social performance of these investments related to PS1 and PS7 requirements. These requirements include the identification and assessment of social risks and impacts, particularly on vulnerable groups and Indigenous Peoples; the establishment of effective environmental and social management systems aligned with GIIP, including by adjusting and modifying their existing products and services in response to clients’ needs and outcomes;<sup>354</sup> and the monitoring of client practices to ensure that adverse impacts on Indigenous Peoples are avoided or mitigated. As addressed in section 4.4 below, CAO found no evidence that IFC met its E&S requirements to work with its clients and sub-clients to adapt their products to address the specific risks and needs of Indigenous borrowers.

#### *d) Lack of appropriate communication for Indigenous Peoples*

Performance Standard 7 recognizes that Indigenous Peoples often have distinct languages from mainstream society and that project information should be made available to them in an understandable format, using languages where appropriate.<sup>355</sup> In addition, GIIP standards on

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<sup>351</sup> The Cambodian Land Law acknowledges that Indigenous Peoples in Cambodia are those whose members manifest ethnic, social, cultural and economic unity and who practice a traditional lifestyle and cultivate the lands in their possession according to customary rules of collective uses. The Land law recognizes that the Indigenous Peoples are those where they have established their residences and carry out traditional agriculture, including cultivated land and land necessary to shift cultivation according to the agricultural methods they practice. Royal Government of Cambodia (2001). Land Law (NS/RKM/0801/14). Phnom Penh, Articles 23 and 25. <https://bit.ly/41OhoOA>. See also, Bliss Report, 2022.

<sup>352</sup> J. Padwe, *Disturbed Forests, Fragmented Memories, Jarai and Other Lives in the Cambodian Highlands*, University of Washington Press, 2020; Milne, Sarah Under the leopard’s skin: Land commodification and the dilemmas of Indigenous communal title in upland Cambodia. *Asia Pacific Viewpoint* 54(3), 2013, pp. 323-339; Ironside, Jeremy. 2013. Thinking outside the fences: exploring culture/land relationships: a case study of Ratanakiri province, Cambodia. PhD Thesis. The University of Otago, Dunedin, New Zealand; Uk, Krishna. 2011. Living amidst remnants of war: livelihood and survival strategies of a Jorai village in Noreast Cambodia. PhD thesis, Darwin College, University of Cambridge, and Bourdier, Frédéric. (2006). *The Mountain of Precious Stones Ratanakiri, Cambodia*. Phnom Penh: The Center for Khmer Studies.

<sup>353</sup> Res, Microfinance in the forest frontier, 2024, p. 39, 53. Salemink, Oscar. 1999. ‘Beyond complicity and naiveté: contextualizing the ethnography of Viet Nam’s central highlanders 1850-1990’. Ph.D. Thesis in history. University of Vrijdag. Holland, pp.136-138; Salemink, Oscar. 1999. ‘Beyond complicity and naiveté: contextualizing the ethnography of Viet Nam’s central highlanders 1850-1990’. Ph.D. Thesis in history. University of Vrijdag. Holland, p.139

<sup>354</sup> Cerise+ SPTF, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Standard 3B, <https://bit.ly/4mlrsRz>

<sup>355</sup> PS7, para. 1, 5 and 10 Guidance Note 7, Indigenous Peoples, GN19.

transparency, which IFC clients must apply under PS1, require that microfinance providers communicate clear, sufficient, and timely information to borrowers in a manner and language that they can understand, so they can make informed decisions.<sup>356</sup> CAO saw no indication that IFC clients and sub-clients operating in majority-IP areas have translated information or materials into local languages. The absence of such materials can impede appropriate communication with Indigenous Peoples, who are a targeted population for microfinance in these areas. While some local BFI staff are also IP and speak their languages, CAO’s interviews suggest that this circumstance does not consistently resolve communication obstacles<sup>357</sup> During its field mission, CAO learned of at least three complainants who had trouble understanding the terms and policies of their loans or FI staff requests because the loan officers spoke only in Khmer.<sup>358</sup> These communication gaps can limit borrowers’ ability to fully understand their obligations, rights, and available recourse, and therefore undermine the informed consultation and participation requirements of PS7, as well as GIIP standards on transparency.

Based on the information reviewed, including CAO’s own field observations, CAO identified gaps in the social performance of IFC’s investments with PS1 and PS7 requirements to avoid adverse impacts on Indigenous Peoples, and provide culturally appropriate engagement and benefits.

#### **4.2.3 Considerations of IFC project and sub-project E&S performance related to PS1 requirements regarding grievance mechanisms**

PS1 requires that IFC’s FI clients establish an external communications mechanism for the project and project-affected people. This should include methods to receive, register, screen, assess, track, respond to, and act upon inquiries and complaints from the public about their operations. IFC also expects FIs to require their sub-projects to establish and maintain a grievance mechanism if the sub-project in question is also subject to IFC’s E&S Performance Standards.<sup>359</sup> Additionally, if the FI’s own operations could generate adverse E&S impacts on affected communities or the environment, the FI is expected to have a grievance mechanism as part of its ESMS. PS1 specifies that the grievance mechanism should seek to resolve affected communities’ concerns promptly, using an understandable and transparent consultative process that is culturally appropriate and readily accessible, at no cost and without retribution to the party that originated the issue or concern.<sup>360</sup> Complementing the PS1 obligation against retribution for grievances, IFC issued a Position Statement on Retaliation Against Civil Society and Project Stakeholders in 2018. This requires clients to establish accessible project-level grievance mechanisms, implemented without

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<sup>356</sup> Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, p. 8, <https://bit.ly/4kw6Dao>, and Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, Standard 4.B, p. 28 <https://bit.ly/41RDorH>, and Cerise+ SPTF, A Guide to Assessing <https://bit.ly/4dTJIU8>. One BFI indicated to CAO that the loan agreements are written in Khmer, Cambodia’s official language, and that borrowers are informed about the loan terms and conditions with the assistance of visual aids. The BFI did not indicate whether any of these materials are translated or interpreted in IP languages to IP borrowers.

<sup>357</sup> During CAO’s field visit, several of the BFIs mentioned that in IP areas their credit officers also often speak Indigenous languages and they are the ones that communicate with IP borrowers.

<sup>358</sup> Based on the level of Khmer literacy reported by IP complainants, it is likely that additional complainants faced challenges with literacy and fluency, which may have affected their ability to fully understand the information provided.

<sup>359</sup> Guidance Note on Financial Intermediaries, September 2023, para. 55, <https://bit.ly/4i7hHLW>, and Interpretation Note on Financial Intermediaries, January 2012, paras. IN49 and IN50, <https://bit.ly/3HF4wIZ>

<sup>360</sup> 2012 PS1 para. 35, and for the MEF investment, see also 2006 PS1, para. 23.

retribution, to ensure stakeholders can engage freely with IFC and its clients, providing feedback, voicing opposition, and raising concerns without fear.<sup>361</sup>

Good international industry practice for microfinance, applicable under PS1, further emphasizes the importance of ensuring the availability of accessible, adapted, efficient, timely, and responsive mechanisms for complaints and problem resolution.<sup>362</sup> According to GIIP guidelines, these mechanisms should be designed not only to resolve individual issues but also to improve products and services. Borrowers should be able to submit complaints to individuals other than their loan or product officer and that person’s supervisor, financial providers should offer at least two free-of-charge and accessible complaint channels, and their complaints policy should identify levels of severity and escalate severe complaints immediately to senior management.<sup>363</sup> For its part, the World Bank Group’s 2019 Technical Note on Complaints Handling within Financial Service Providers recommends managing complaints in a tiered structure through a dedicated complaints handling team separate from the operational business units.<sup>364</sup> This approach seeks to ensure fair and transparent processing of complaints, avoid potential conflicts of interest, and reduce clients’ fears of retribution. The Technical Note emphasizes that loan officers may have influence over a borrower’s borrowing ability, which might deter clients from reporting complaints.<sup>365</sup>

In Cambodia, financial institutions have addressed this issue in recent years. The National Bank of Cambodia (NBC) adopted a regulation for resolving complaints about financial institutions<sup>366</sup> in 2017, and the Association of Banks in Cambodia (ABC) and the Cambodian Microfinance Association (CMA) implemented their Code of Conduct in 2022. The code establishes options for dispute resolution, each with different steps and levels. Complainants may directly approach the banks and financial providers for resolution and, if not satisfied with the outcome, bring the complaint for mediation before the ABC or CMA. They may also directly approach NBC for resolution and, if not satisfied with the outcome, bring the complaint to competent authorities and/or the courts for resolution.<sup>367</sup> The NBC regulation also set up requirements and processes for these complaints mechanisms, among them a quarterly report on complaint management with specific

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<sup>361</sup> IFC Position Statement on Retaliation Against Civil Society and Project Stakeholders, October 2018, <https://bit.ly/4600H1m>.

<sup>362</sup> CGAP, Implementing the Client Protection Principles, A Technical Guide for Investors, 2010, p.3 <https://bit.ly/4jdwMKb>; Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, pp. 31-33, <https://officecao.org/4mlrWqV>, and Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, p.35-36, <https://bit.ly/41RDorH>.

<sup>363</sup> Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, Standard 4.E.1.2, and SPTF+Cerise, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Standard 4.E, <https://bit.ly/4jAKC95>

<sup>364</sup> World Bank Group, Technical Note: Complaints Handling within Financial Service Providers Principles, Practices, and Regulatory Approaches June 2019, pp. 2-5 <https://bit.ly/3DscZre>.

<sup>365</sup> World Bank Group, Technical Note: Complaints Handling within Financial Service Providers Principles, Practices, and Regulatory Approaches June 2019, p.5 <https://bit.ly/3DscZre>.

<sup>366</sup> Sub-decree (Prakas) B7-017-299 on “Resolution of Consumer Complaints” <https://bit.ly/3FGuxAB>.

<sup>367</sup> Banking and Financial Institutions Code of Conduct, 2022, p.11-12 <https://bit.ly/41ZQnX8>.

data and information included.<sup>368</sup> The NBC, ABC, and CMA have all implemented consumer hotlines in addition to the in-house complaint mechanisms of each member bank or MFI.<sup>369</sup> Other than requiring the confidentiality of consumer complaint information, current government regulation and industry self-regulation in Cambodia does not address prevention of threats and reprisals against people submitting complaints.<sup>370</sup>

Given the practices identified above, the vulnerability of borrowers, and the limited oversight in the field, grievance mechanisms through which Cambodian microfinance borrowers can report harmful lending and recovery practices could be a crucial tool to address issues raised in this complaint. However, CAO finds that IFC did not work with its clients to align its investments and sub-investments with E&S requirements for external grievance mechanisms under PS1 as summarized below.

*a) Grievance mechanisms are not equipped to adequately handle complaints and frequently perceived as a tool to further pressure borrowers*

All six IFC clients and sub-clients in this case follow a complaint management policy and procedures that enable borrowers to submit complaints through their website or in person. These procedures involve formally receiving, registering, assessing, and responding to complaints from the public and affected people, and all have escalation procedures. However, in practice, some of the BFIs appear ill-equipped and under-resourced to adequately handle complaints. As described in section 4.5 in more detail, most of the IFC clients and sub-clients report complaint numbers inconsistently, and in some cases reported very few or no complaints to IFC.<sup>371</sup> Given the number of clients these institutions serve, and the longstanding and widely-reported social impacts of microfinance in Cambodia (see section 1.2), these very low levels of reported complaints suggest the relevant FIs’ complaint mechanisms are not adequate to deliver on their objective and may have design and accessibility challenges. CAO’s interviews with borrowers mirror the findings of national studies that more than a third of microfinance borrowers are unaware of a complaint mechanism and were not informed about it by their lender as required by GIIP.<sup>372</sup> Among the CAO interviewees, complaints were submitted mostly in cases where the borrowers had assistance from a CSO.

Several human rights organizations also raised concerns to CAO about the independence and

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<sup>368</sup> The financial institution is required to provide the NBC with a quarterly report on complaint management and resolution. This quarterly report should include the number of complaints received, the number of complaints resolved during the reporting period, the products and services to which the complaints related, any systemic problems, the average time taken to resolve the complaints, the measures taken to reduce the number of the most frequent and systematically important complaints, and the complaints in the process of being resolved during the reporting period. It also required that the financial institution publicly display the Complaints Handling Procedure document, which must be clear and easy to understand in Khmer and English, at the retail locations where the products and services are offered. Sub-decree (Prakas) B7-017-299 on “Resolution of Consumer Complaints”, articles 10 and 12, <https://bit.ly/3FGuxAB>.

<sup>369</sup> NBC, List of the NBC’s Hotlines to Accommodate Consumers’ Enquiry and Complaints on the Usage of Financial Services, <https://bit.ly/428AAFH>; ABC, Hotline, <https://bit.ly/4izxXn8> and CMA, Hotline Complaint, <https://bit.ly/3DW8fKv>

<sup>370</sup> Prakas B7-017-299 on “Resolution of Consumer Complaints” <https://bit.ly/3FGuxAB>; Banking and Financial Institutions Code of Conduct <https://bit.ly/41ZQnX8>.

<sup>371</sup> CAO received no information regarding disciplinary actions taken against staff working at any of the IFC clients and sub-clients.

<sup>372</sup> Bliss Report, p.69. In August 2025, one BFI shared additional improvements to their complaint mechanism since 2024 by displaying it in their branches, website, and the incorporation of a complaint’s hotline number in all the marketing materials, loan contract, loan repayment schedule, and social media platforms.

safety of these complaint mechanisms. While the NBC regulation established a multi-tiered approach where borrowers can file complaints directly to either the financial provider, the corresponding industry association (ABC or CMA), or the NBC, three complainants reported to CAO that complaints received by the NBC or ABC/CMA appear to have been referred back to the financial institution that issued the loan. This means that the same institution that is the subject of the complaint also handles it, and raises the question of whether borrowers have access to independent recourse.<sup>373</sup> CAO’s interviews with the complainants also highlighted alleged instances of complaint cases generating further pressure, intimidation, and visits by BFIs’ credit officers rather than providing alternatives to address borrowers’ debt distress. For example:

- One complainant reported filing a complaint with the NBC requesting assistance to cancel interest and fines for their loan with an IFC sub-client. The complainant allegedly received no official response from the NBC and shared supporting documentation on how she was subsequently visited by her usual credit officer and their supervisor, and encouraged to take an informal loan, sell assets to repay, have her children drop out of school, and take responsibility to repay the debt.
- Another complainant reported contacting the NBC to report pressure from a staff member of another IFC client. She alleged that the NBC referred the case to the IFC client’s headquarters, which then forwarded it to its provincial branch. According to the complainant, the branch required her to thumbprint a document that acknowledged filing the complaint with the NBC and questioned whether her family was encountering problems.
- A third complainant told CAO that after submitting a complaint to the NBC, an IFC sub-client officer visited her home and asked her to sign a document related to late payment. She indicated that branch staff intimidated her and her husband and threatened to involve commune authorities and the police after she mentioned contacting the NBC.<sup>374</sup>

b) *Complaint resolution process as a means to challenge complainants’ credibility*

CAO received reports and noted during interviews with BFI staff that some lenders may use the complaint resolution process in a manner perceived by complainants and civil society organizations as a “fact-finding” exercise aimed at challenging complainants’ credibility and managing potential reputational risks to the FIs, rather than focusing on resolving the lending issues raised. This approach was noted particularly in relation to the more serious allegations or complaints, such as those made in the CAO complaint and public reports concerning debt-related

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<sup>373</sup> The WBG has explained that GIIP indicates that consumers should be provided an alternative dispute resolution mechanism, where they can appeal a decision resulting from the internal complaints handling at the financial service provider that, among other things, is independent of both parties, discharges its functions impartially and has the powers to issue decisions that are binding on the financial service provider. WBG, Good Practices for Financial Consumer Protection, 2017, pp. 51-52, <https://bit.ly/41PWcWT>.

<sup>374</sup> The complainant had first requested a meeting with the credit officer’s supervisor and was asked to come to the IFC sub-client’s office. After waiting all afternoon, the same officer who had collected her debt appeared and declined her request. When she mentioned contacting the NBC, the officer slammed the table, questioned her reasons for involving the NBC, and threatened to call the police and local authorities when she refused to thumbprint a document. Nevertheless, she contacted the NBC, who informed her they would report the complaint to the IFC sub-client. A few days later, the complainant said the credit officer left scolding voice messages and subsequently visited her house repeatedly to collect the debt and suggested her children drop out of school to help repay it. The complainant described the state of depression and anxiety she experienced following these episodes.

suicides. Shortly after the CAO complaint was declared eligible in 2022, staff from several IFC sub-clients reportedly visited communities in an effort to identify the complainants. According to community members, these visits created tension and fear within the community, and contributed to intra-community conflict.

These incidents took place amid wider reports of threats and reprisals against complainants and their NGO representatives across Cambodia, which have raised public concerns about retaliation against critics of the microfinance industry.

*c) Reprisals against critics of microfinance lending in Cambodia*

According to public statements and media reports, some BFIs have accused NGOs of defamation and of coordinating to harm the industry’s image.<sup>375</sup> These actors have called on NGOs to “make immediate corrections” to their report, urged government authorities to take action against individuals or groups alleged to be inciting unrest or undermining confidence in the banking system, and warned of possible legal action.<sup>376</sup> In 2020, media reports described people being sued for defamation after criticizing microfinance institutions and activists being arrested for demonstrating against BFIs and calling for suspension of loan repayments.<sup>377</sup>

These incidents have taken place against a broader backdrop documented by international human rights bodies. The Special Rapporteur on the situation of human rights in Cambodia, the Office of the United Nations High Commissioner for Human Rights (OHCHR), the Human Rights Committee on Civil and Political Rights, and the United Nations Cambodia country team have consistently reported concerns about the use of criminal prosecutions for defamation and incitement in ways that restrict the activities of human rights defenders, environmentalists, journalists, political dissidents, and others perceived as opposing the authorities.<sup>378</sup> In this context, CAO notes that during the course of its investigation, an arrest warrant was issued for the executive director of one of the CSOs representing the complainants.<sup>379</sup>

Based on the information reviewed, including CAO’s own field observations, CAO identified gaps

<sup>375</sup> One of the NGOs being LICADHO, which is part of the present complaint. See: Critics of Critical MFI Report See Media ‘Coordination,’ Socialism, Broad Brush, August 9, 2019, in VOD, <https://bit.ly/4iDGANT>

<sup>376</sup> Joint Statement of ABC & CMA Response to Unreliable Articles & Reports, July 15, 2020, <https://bit.ly/4mwIQIV>. Cambodia: ACLEDA Bank accuses three CSOs of defamation in its statement and urges govt to take action following CSOs’ report on workers’ inability to repay debt, <https://bit.ly/3FG7BRW>; Critics of Critical MFI Report See Media ‘Coordination,’ Socialism, Broad Brush, August 9, 2019, in VOD, <https://bit.ly/4iDGANT>; Financial Institutions, Civil Society Spar Over Indebtedness Reports, 16 July 2020, in VOA here: <https://bit.ly/4c2QUwd>, and Cambodian Bank Demands ‘Action’ Against NGOs Who Say Workers Need Debt Relief, 2 July 2020 in RFA here: <https://bit.ly/4iB3GEx>.

<sup>377</sup> Microfinance Firm Sues for Defamation After Branch Manager’s Desperation, 1 November 2020, VOD, <https://bit.ly/4bZKvRk>; Six detained for protesting microfinance repayments, 14 May 2020 in Cambodia News, <https://bit.ly/3RiFeeW>, and Journalists, Opposition Activists and Unionists targeted during pandemic in Cambodia, 23 July 2020, Civicus, <https://bit.ly/440Fbft>

<sup>378</sup> UN, Situation of human rights in Cambodia, Report of the Special Rapporteur on the situation of human rights in Cambodia, July 2023, UN Doc. A/HRC/54/75, para. 25, 30. OHCHR, Role and achievements of the Office of the United Nations High Commissioner for Human Rights in assisting the Government and people of Cambodia in the promotion and protection of human rights”, 25 August 2023, UN Doc A/HRC/54/72, p. 34, 41; Human Rights Committee, Concluding observations on the third periodic report of Cambodia, 18 May 2022, UN Doc, CCPR/C/KHM/CO/3, para. 34. Cambodia: Compilation of information prepared by the Office of the United Nations High Commissioner for Human Rights for the Universal Periodic Review, 22 February 2024, UN Doc A/HRC/WG.6/46/KHM/2, para. 35-54.

<sup>379</sup> CSO Statement Demanding World Bank Action on Cambodian Reprisals, 2024, <https://bit.ly/4iLONPO>; Business & Human Rights Resource Centre, Eang Vuthy – Equitable Cambodia, <https://bit.ly/4hNUU4K>

in the social performance of IFC’s investments with PS1 requirements to establish culturally appropriate, readily accessible and non-retaliatory communications mechanism for the project and sub-projects in line with GIIP.

### **4.3 IFC’s compliance with its Sustainability Framework obligations regarding vulnerable populations**

This section assesses whether IFC, through its due diligence and supervision efforts, met its Sustainability Policy obligations to ensure the business activities it finances meet Performance Standards (PS) requirements.<sup>380</sup> Specifically, CAO analyzes whether IFC met its obligations to finance investment activities that were expected to meet PS requirements “within a reasonable period of time”,<sup>381</sup> with the intent to “do no harm” to people, and ensuring “that the costs of economic development do not fall disproportionately on those who are poor or vulnerable.”<sup>382</sup>

In making investments in microfinance clients, the Sustainability Framework requires IFC to screen, review, require mitigation of, and monitor the E&S risks and impacts of microfinance investments, which can include microfinance borrowers as affected people. The Sustainability Policy requires that IFC takes these actions according to the nature and risk profile of the microfinance investments and the specific requirements of PS1 (which requires clients to apply GIIP and PS7) and the Exclusion List (see section 3.7).<sup>383</sup>

#### **4.3.1 IFC’s E&S due diligence of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA**

Under the Sustainability Policy, IFC’s pre-investment E&S due diligence (ESDD) for microfinance lenders, including the clients and sub-clients in this case, should involve the following process:

1. Categorize the projects to reflect the magnitude of all risks and impacts and specify the clients’ E&S requirements
2. Review the FI clients’ capacity to manage E&S risks of microfinance according to GIIP, including social risks of harm to borrowers
3. Consider the inherent E&S risks for a particular sector as well as the context of the business activity’s setting
4. Review the FI client’s ESMS, and its ability to identify, prevent, or mitigate social risks to microfinance borrowers.

<sup>380</sup> 2012 Sustainability Policy, para. 7, and for the MEF investment, 2006 Sustainability Policy, para. 8.

<sup>381</sup> 2012 Sustainability Policy, para. 22, and for MEF investment, 2006 Sustainability Policy, para. 13. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP for equivalent provisions for clients to meet IFC E&S requirements.

<sup>382</sup> 2012 Sustainability Policy, para. 9, and for the MEF investment, 2006 Sustainability Policy, para. 8. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP for equivalent requirements to avoid E&S impacts and carry out sustainable projects.

<sup>383</sup> 2012 Sustainability Policy, paras. 19, 20-22, 32, 33, and 35, and PS1, paras. 5, 7 and 12. For the MEF investment, 2006 Sustainability Policy, paras. 13-17, 26 and 27-29; 2006 PS1 3, 4, 8 and 12.

This process should follow GIIP for responsible finance by assessing the FI’s policies and practices to ensure they: prevent and mitigate potential social risks and impacts to vulnerable populations; avoid and minimize the possibility of land loss, decrease in livelihoods, and impacts on IP land and culture; provide grievance and redress mechanisms; and develop action plans for any gaps identified (2012 Sustainability Policy, paras. 31-34, 40 and 42).<sup>384</sup>

In addition, IFC should require FI clients to establish and implement an ESMS that identifies all relevant project E&S risks and impacts and manages them with preventive and mitigating measures that are consistent with PS1, PS7, the IFC Exclusion List, GIIP, and national regulations relevant to microfinance borrowers, and commensurate with the nature and magnitude of the project risk(s) and impact(s) (2012 Sustainability Policy, paras. 33 and 35, and PS1, para. 5, 6, 7, and 12).<sup>385</sup>

#### *4.3.1.1 Categorization: Investments considered low or medium risk without considering the vulnerability of targeted borrowers*

The Sustainability Policy mandates that IFC carry out its E&S pre-investment due diligence (ESDD) according to the nature, scope, and specificity of the project,<sup>386</sup> taking into account the known risks of the FI’s business activities, and categorize the projects to reflect the magnitude of the project’s risks and impacts.<sup>387</sup> However, IFC’s due diligence of ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA did not identify the vulnerability of microfinance borrowers as a risk nor did it identify the appropriate requirements to manage such risk.

IFC categorized six of its nine direct investments in Cambodian financial institutions as FI-2, and three as FI-3.<sup>388</sup> FI-2 business activities have potential limited adverse E&S risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures while FI-3 business activities “predominantly have minimal or no adverse environmental or social impacts”. Similarly, IFC categorized its investment in North Haven Thai, a private equity fund that later invested in ACLEDA as FI-2, while its investments in the MEF and MIFA funds, and the Advans holding company, were all categorized as FI<sup>389</sup> under the older

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<sup>384</sup> 2012 Sustainability Policy, paras. 31-34, 40 and 42. For the MEF investment, 2006 Sustainability Policy, para. 18, 27-29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP for requirements to assess potential social impacts and FI’s E&S capacity to meet E&S requirements.

<sup>385</sup> 2012 Sustainability Policy, paras. 33 and 35, and PS1, para. 5, 6, 7, and 12. For the MEF investment, 2006 Sustainability Policy, para. 28 and 29; 2006 PS1 3, 4 and 12. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>386</sup> 2012 IFC Sustainability Policy, para. 19, 21, 32 and 33. For the MEF investment, 2006 Sustainability Policy, para. 13, 27-29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>387</sup> 2012 IFC Sustainability Policy, para. 34 and 40. For the MEF investment, 2006 Sustainability Policy, para. 18. For the Advans investment, see 1998 ESRP, page 10 and Annex F.

<sup>388</sup> Categorized as FI-2: ACLEDA projects [#44882](#) and [#42480](#), Amret projects [#34748](#) and [#41294](#), and Hattha Bank projects [#45535](#) and [#44742](#). Categorized as **FI-03**: Amret project [#44231](#), and Hattha Bank projects [#39167](#) and [#44211](#). 2012 Sustainability Policy, para. 40.

<sup>389</sup> North Haven Thai project [#38609](#), and MEF project [#27827](#), MIFA project [#31467](#), and Advans S.A. project [#21856](#). The MIFA investment seems to have been miscategorized as FI only, even though it was approved in 2012 after the 2012 Sustainability Policy was already in force.

Sustainability Frameworks which did not include sub-categories.<sup>390</sup> All 13 investments were considered either low or medium risk as in IFC’s view they entailed limited adverse E&S risks and potential impacts.<sup>391</sup>

For the three direct loans categorized as FI-3, IFC considered there was a non-existent or low likelihood that the sub-projects would be exposed to significant E&S risks, including related to Indigenous Peoples.<sup>392</sup> For the six direct investments categorized as medium risk, IFC determined that these financial institutions engaged in limited to moderate risk lending activities, on the basis of their existing and likely sub-projects. These sub-projects mostly entailed SME or MSME lending, but in some cases also included existing or prospective large corporate lending and project financing in sectors such as agribusiness, wholesale, retail trade, services, and small-scale construction. IFC considered the latter investments to have overall moderate or medium-low E&S risks which could generally be addressed through standard mitigation measures.<sup>393</sup> None of these risk and categorization considerations take into account the potential risks to borrowers targeted for the MSME lending.

Regarding the equity investments in this case, IFC categorized North Haven Thai, a private equity fund,<sup>394</sup> as medium risk on the basis the client was unlikely to invest in companies exposed to medium-high E&S risk because the fund's primary focus was on medium and medium-low E&S risk sectors such consumer goods, building materials, food processing, media, and healthcare services.<sup>395</sup> In contrast to North Haven Thai, Amret, Advans, MEF, and MIFA were all equity investments specifically focused on microfinance. IFC’s investment in Advans, a private holding company for creating MFIs, is the oldest included in this case (approved in 2004) and ESDD was carried out under the 1998 IFC Safeguard Policies, which classified the project as a Category FI type 1 (the lower risk FI investments under that policy). Advans and any subsequent MFI investments were required to comply with IFC’s E&S Review Procedures (ESRP) including the establishment of an environmental

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<sup>390</sup> Under the 2006 Sustainability Policy, “All FI projects excluding those that are Category C projects (see paragraphs 27 through 29 below)” were categorized as FI. Similarly, the 1998 Sustainability Framework had only the FI Category for financial intermediary investments, which is defined as “A proposed project is classified as Category FI if it involves investment of IFC funds through a financial intermediary, in subprojects that may result in adverse environmental impacts. In addition, in some capital markets projects, IFC funds are not targeted to specific subprojects (e.g. equity in a financial institution such as a commercial bank), but the financial institution has operations which may have adverse environmental impacts (e.g. project finance). In such cases, IFC may also classify the project as Category FI.”

<sup>391</sup> See E&S summary and disclosure for ACLEDA projects #42480: <https://bit.ly/4hMGUJz>; project #44882 <https://bit.ly/4j1vEJj>; Amret projects #41294 <https://bit.ly/3QNFd2E>, project #44231 <https://bit.ly/42fxkt3>; Hattha Bank projects #39167 <https://bit.ly/3FDYn8B>, #44211 <https://bit.ly/3Xz7PjY>, #44742 <https://bit.ly/4c3Tlyt>, #45535 <https://bit.ly/4j0lqHU>; MEF project #27827 <https://bit.ly/3FHjOG4>; MIFA project #31467 <https://bit.ly/3DJCC6P>; Advans project #21856 <https://bit.ly/4hB9v3o>, and North Haven Thai project #38609 <https://bit.ly/43rK6pl>.

<sup>392</sup> Amret project #44231, and Hattha Bank projects #39167 and #44211.

<sup>393</sup> In most of these cases, IFC indicated that “The project will not support higher risk business activities that may include a) involuntary resettlement, b) risk of adverse impacts on Indigenous Peoples, c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage or d) significant Occupational Health and Safety risks”. See E&S summary and disclosure for ACLEDA projects #42480: <https://bit.ly/4hMGUJz>; project #44882 <https://bit.ly/4j1vEJj>; Amret projects #41294 <https://bit.ly/3QNFd2E>, and #34748 <https://bit.ly/4mLtQH0>; Hattha Bank projects #44742 <https://bit.ly/4c3Tlyt>, #45535 <https://bit.ly/4j0lqHU>.

<sup>394</sup> The fund had an E&S team in place at the time of ESDD but no ESMS, and one of the E&S requirements was to develop a comprehensive ESMS based on good international E&S risk management practices. IFC also found that the fund’s Manager had experience with using qualified external E&S consulting companies in its due diligence processes. North Haven Thai project #38609 <https://bit.ly/43rK6pl>

<sup>395</sup> North Haven Thai project #38609 <https://bit.ly/43rK6pl>.

reporting system acceptable to IFC.<sup>396</sup> Amret was an MFI when IFC bought equity in 2014<sup>397</sup> and IFC’s ESDD only reviewed risks and impacts from the activities of potential sub-borrowers and not the potential risks on the sub-borrowers who were the targets of the investment.<sup>398</sup> In the case of MEF and MIFA, IFC considered the investments low risk on the basis of the potential activities of the sub-borrowers and the experience the fund managers had in microfinance. IFC indicated that these funds would base their operations on best practices for commercial microfinance, without further elaboration.

IFC’s consideration of these projects as low and medium risk meant its pre-investment due diligence was often limited. All but three ESDDs for the 13 investments consisted of a desk review of the client’s answers to E&S questionnaires without a site visit or comprehensive analysis of client policies and procedures.<sup>399</sup> For Hattha Bank (project #44211) and Amret (projects #44231 and #41294), the ESDD was limited to a review of IFC’s documentation on file for these existing clients, particularly the previous year’s E&S reports. A more thorough appraisal was conducted for two ACLEDA loans in 2019 (including a site appraisal) and 2021 (an online mission), and for the Amret equity investment in 2014, which included a site appraisal and broader review of Amret’s loan portfolio and underwriting process. However, even in these more thorough reviews that included client lending policies and practices, IFC’s due diligence did not extend to identification, discussion, or review of impacts on vulnerable populations and how they might be impacted by these projects.

CAO acknowledges IFC’s position that it did not consider microfinance borrowers to be covered by its E&S requirements. However, these investments were designed to serve poor or very poor people, and unserved and underserved groups, which, consistent with PS1, are vulnerable

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<sup>396</sup> The 1998 ESRP, applicable to the Advans due diligence indicates that “5. The FI category allows flexibility to tailor environmental and social requirements to the project and anticipated subprojects. Requirements for various kinds of situations are grouped into categories, or types, as follows. a. Type 1 Requirements. When IFC funds are not targeted to specific subprojects but the financial institution has operations which may have adverse environmental and/or social impacts, IFC focuses on the process of environmental and social management in the institution rather than on specific subprojects. Type 1 requirements are also applied in situations in which it is impractical or infeasible for the financial institution to impose requirements on subprojects other than host country laws and regulations e.g., microfinance, trade finance. The following requirements apply: i. The FI must establish an environmental and social management system (policy, procedure, resources) for relevant operations (for example, project finance, corporate loans, or leasing operations in a commercial bank) and require that activities conducted under those operations comply with host country environmental, health and safety requirements. ii. The FI must appoint a senior officer with overall responsibility for environmental and social issues and identify an individual who will manage and/or conduct reviews. Both must attend IFC sponsored or approved training in environmental and social management for financial institutions. iii. The FI must submit an annual environmental performance report which focuses on its environmental and social management system. iv. Microfinance projects, which are usually classified as Type I, are required to comply with host country environmental, health and safety requirements, and must abide by the requirements in Table 4, Microfinance Exclusion List.

<sup>397</sup> IFC also had an indirect financial exposure through Advans since 2005.

<sup>398</sup> Amret project #34748, E&S summary and disclosure <https://bit.ly/3XyuZXz>. Amret, Social Performance Management, <https://bit.ly/4k449PI>

<sup>399</sup> In the case of the MEF, MIFA and North Haven Thai funds, the ESDD reviewed the E&S capacity and management of the potential fund managers as the funds were being created and the funds had no existing policies at the time of due diligence. In the case of Advans, there is little record of the ESDD done in 2004 but project documents suggest it was a very limited desk review, that included some review of the sponsor’s and future fund manager MFI capacity but not of its ESDD capacity.

people.<sup>400</sup> PS1 indicates that vulnerable status may stem from an individual’s or group’s race, color, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status, as well as factors such as such as gender, age, ethnicity, culture, literacy, sickness, physical or mental disability, poverty or economic disadvantage, and dependence on unique natural resources.<sup>401</sup> For context, according to the Oxford Multidimensional Poverty Index, 41% of Cambodia’s population was poor or at risk of falling into the poverty in 2021/2022.<sup>402</sup> In 2023, a CMA-commissioned survey of over 3,000 microfinance borrowing households found that 59% lived in poverty or at risk of poverty,<sup>403</sup> and a separate survey in 2024 of 2,939 borrowers found that 19% lived on less than \$8 per day, with microfinance providers having significant reach in rural areas.<sup>404</sup> While this aligns with the sector’s objective to combat poverty and promote financial inclusion, it also means that microfinance risks disproportionately affect the most vulnerable segments of the population.<sup>405</sup>

Lower-income households also tend to have lower financial literacy levels,<sup>406</sup> which makes them vulnerable to misunderstanding loan terms. A 2014 S&P Global FinLit Survey found that only 18%

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<sup>400</sup> In these investments, the target groups were for people looking for micro, small and medium enterprise loans that were “base of the of the pyramid” (BOP) which is the market segment comprised of all people with income below \$8 per day in purchasing power parity or who lack access to basic goods and services (Hattha Bank project #45535 and 44742); un- and underserved micro, small and medium enterprises, predominantly in the agricultural sector and rural areas of Cambodia (Amret project #41294); micro, small, and medium enterprises (MSMEs) affected by the COVID-19 pandemic, particularly those in the garment, tourism and construction sectors, and particularly to women and women owned enterprises (Hattha Bank project #44211 and Amret project #44231); underserved SME segments, including WSMEs and SMEs operating in the agricultural sector (Acleda project #44882 and 42480), as specially underserved groups, including WSMEs and people living in remote areas; Funds: low income borrowers, including women, and MFIs with outreach potential to the disadvantaged and traditionally financially-excluded (MIFA project #), and underserved microenterprises with a focus in at least 20 IDA countries, as a tool to fight poverty (MEF project #27827); low income populations in extremely underdeveloped frontier markets (Advans project #21856)

<sup>401</sup> PS1, para. 12, footnote 18.

<sup>402</sup> Oxford Poverty & Human Development Initiative, UNDP, Global Multidimensional Poverty Index 2024, Poverty Amid Conflict, 2024, <https://bit.ly/4iEWCGO>, p.24; For Indigenous Peoples (IPs), a report on their demographic and socio-economic situation in Cambodia states that their socio-economic status remains far below that of the general Cambodian population. Additionally, the Cambodia Socio-Economic Survey shows that in 2021, the national adult literacy rate was 84.7% (80.3% for females and 89.5% for males). In contrast, data from 2019 indicates that only 56.5% of Indigenous Peoples aged 7 and above were literate in Khmer (50.8% for females and 62.5% for males).

See: Cambodia Indigenous Peoples Organization, The National Report on the Demographic and Socio-Economic Situation of Indigenous Peoples in Cambodia, 2024, <https://bit.ly/42hE9KO>; Seila Nhiep, Bandeth Ros, Mapping Report, on Indigenous Communal Land Titling (ICLT) with Gender Lenses in Cambodia, October 2024, <https://bit.ly/4c1XYce>, p.1-2 ; and National Institute of Statistics Ministry of Planning, Report of Cambodia Socio-Economic Survey 2021, <https://bit.ly/3FHiZNu>, p.58

<sup>403</sup> Approximately 12% are classified as very poor, 27% as poor and 20% as at risk of poverty MCRIL-CMA Impact Assessment, 2023, p.28

<sup>404</sup> 60\_decibels, Cambodia Insights from the 60 dB Microfinance Index, 2024, <https://bit.ly/43JJ6xl>, (hereinafter 60decibels Survey), p. 11

<sup>405</sup> The 60decibels Survey, emphasizing that the goal of microfinance is to reach those who would otherwise not have access to credit or other financial services, found that financial service providers in Cambodia are reaching rural populations in Cambodia, but are falling short in serving the poorest populations. Similarly, the CMA and M-CRIL research found that 12% of households were below the National Poverty Line which is lower than the national average of household living below the poverty line. See: 60decibels Survey, p.6 and MCRIL, *An impact assessment of microfinance in Cambodia*, 2023, (hereinafter MCRIL-CMA Impact Assessment, 2023). The report commissioned by the CMA conducted a survey of 3,262 households spread over ten provinces

<sup>406</sup> Sovannroeun Samreth, Daiju Aiba, and Vandy Phal, Financial Literacy Among Microfinance Borrowers: Its Importance and Determinants from a Household Survey in Cambodia, JICA Ogata Research Institute Discussion Paper, January 2024, p.28, <https://bit.ly/3DEdsGU>

of Cambodian adults were financially literate<sup>407</sup> and 50% of respondents to the 2023 CMA survey did not know the interest rate charged on their active loans and/or were not aware of processing fees.<sup>408</sup> These factors indicate that many borrowers in IFC client/sub-client microfinance projects had vulnerable status, yet IFC did not review or consider the vulnerability of targeted microfinance users during its pre-investment due diligence.

IFC also did not fully integrate the broader context of known microfinance risks to vulnerable borrowers into its project-level risk assessments. Reports of possible social harms from microfinance in Cambodia emerged around 2009 and continued in 2011 and 2013, including from CGAP, of which IFC is a member (see section 1.2 and timeline in Annex B). In 2015, IFC itself issued a policy paper to promote financial consumer protection in Cambodia, highlighting the potential social risks of over-indebtedness on individual consumers.<sup>409</sup> In 2019, the World Bank issued a policy note indicating that risks to household welfare were increasing as the level of microfinance indebtedness was rising.<sup>410</sup> From 2019 onwards, NGOs and UN agencies consistently reported significant social harms to microfinance borrowers in Cambodia, including loss of land and decreased livelihoods, among others (see section 1.2 and timeline in Annex B).

IFC approved five of the investments in this case after 2019, yet CAO found no evidence that the above reports were considered in identifying and assessing potentially affected people during due diligence. The ESDD reports for IFC’s direct investments in ACLEDA, Amret, and Hattha Bank completed after 2020<sup>411</sup> state that no E&S issues were reported. The due diligence reports did note reputational risks and allegations of predatory lending and collection practices against these institutions, but did not consider these to be E&S issues.

In summary, CAO’s review found that none of IFC’s E&S appraisals considered the potential vulnerability or impacts of the target population for these investments, despite the well documented social impacts and risks of microfinance. As a result, all investments associated with this case were classified as medium to low risk based on IFC’s assessment of limited adverse E&S risks of the likely sub-projects. IFC did require its clients to apply the IFC Exclusion List, relevant Cambodian E&S laws and regulations, and in some cases IFC’s Performance Standards for long term projects and corporate finance exposed to activities associated with significant sub-project risks and impacts.<sup>412</sup>

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<sup>407</sup> Leora Klapper, Annamaria Lusardi, Peter van Oudheusden, Financial Literacy Around the World: Insights from the standard & poor’s ratings services global financial literacy survey, 2014, pp.7, 23 <https://bit.ly/3DYxID2>

<sup>408</sup> MCRIL-CMA Impact Assessment, 2023, p.23, 24. Similarly, a financial literacy assessment among Microfinance borrowers, conducted in 2021 among 1,216 households in Cambodia’s capital city and six provinces found that only 19 percent of respondents provided correct answer to the compound interest rate calculation. Sovannroeun Samreth, Daiju Aiba, and Vandy Phal, Financial Literacy Among Microfinance Borrowers: Its Importance and Determinants from a Household Survey in Cambodia, JICA Ogata Research Institute Discussion Paper, 2024, p.18, <https://bit.ly/3DEdsGU>

<sup>409</sup> IFC, Promoting Financial Consumer Protections in Cambodia, 2015, pp. 29–33. Available at <https://bit.ly/3VCU817>

<sup>410</sup> World Bank Group, Cambodia Policy Note on Microfinance and Household Welfare, 2019, p.11. Available at <https://bit.ly/3NITywl>.

<sup>411</sup> ACLEDA project 44882 (2021); Amret #44231 (2020); and Hattha Bank #44211 (2020).

<sup>412</sup> See E&S summary and disclosure for ACLEDA projects #42480: <https://bit.ly/4hMGUJz>; project #44882 <https://bit.ly/4j1vEJj>; Amret projects #41294 <https://bit.ly/3QNFd2E>, project #44231 <https://bit.ly/42fxkt3>; Hattha Bank projects #39167 <https://bit.ly/3FDYn8B>, #44211 <https://bit.ly/3Xz7PjY>, #44742 <https://bit.ly/4c3Tlyt>, #45535 <https://bit.ly/4j0lqHU>; MEF project #27827 <https://bit.ly/3FHjOG4>; MIFA project #31467 <https://bit.ly/3DJCC6P>; Advans project #21856 <https://bit.ly/4hB9v3o>, and North Haven Thai project #38609 <https://bit.ly/43rK6pl>

#### 4.3.1.2 Review of clients’ E&S Management System to assess client ability to identify and manage risks in line with Performance Standard 1

##### *Relevant requirements*

As part of its due diligence, IFC is obligated to consider the inherent E&S risks for a particular sector, the client’s existing portfolio and prospective business activities, and the context of the business activity’s setting. IFC must also review the client’s E&S capacity and require the establishment and implementation of an E&S Management System (ESMS) for the investment. This must be consistent with PS1,<sup>413</sup> which sets requirements for identifying and addressing risks to and impacts on vulnerable people through the implementation of GIIP.<sup>414</sup> Client responsibilities under PS1 include identifying “groups that may be directly and differentially or disproportionately affected by the project because of their disadvantaged or vulnerable status”, implementing “differentiated measures so that adverse impacts do not fall disproportionately on them”, and ensuring that they are not “disadvantaged in sharing development benefits and opportunities.”<sup>415</sup> The Sustainability Policy further establishes that IFC expects its clients to minimize gender-related risks from business activities and unintended gender differentiated impacts.<sup>416</sup>

##### *IFC actions*

For its direct loan investments in ACLEDA, Amret and Hattha Bank, IFC’s determination of the adequacy of their E&S capacity and management systems was largely premised on the fact that they were longstanding IFC clients. IFC therefore did not include a specific and separate assessment of such adequacy at the time of the respective project pre-investment reviews. For the equity investment in Amret, IFC considered the client’s E&S capacity sufficient and determined that the client had a satisfactory ESMS in place, commensurate with the level of risk presented by its business activities, which are all screened against the IFC Exclusion List and national laws and regulations.<sup>417</sup> IFC identified a need to upgrade or modify the client’s ESMS in only two of its nine direct investments, Hattha Bank project #44742 (2021)<sup>418</sup> and ACLEDA project #42480 (2019),<sup>419</sup> but in neither case was this related to identifying and mitigating impacts on vulnerable people

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<sup>413</sup> 2012 Sustainability Policy, para. 33, 34 and 35. For the MEF investment, 2006 Sustainability Policy, para. 28-29, and for the Advans investment, see IFC OP 4.01 and the 1998 ESRP

<sup>414</sup> 2012 PS1, para. 7, and for the MEF investment, see 2006 PS1, para. 12. For the Advans investment, see OP 4.01 and 1998 ESRP. See sections 3.6.2 and 3.6.3 for the development over the last two decades of GIIP regarding responsible finance practices to prevent and mitigate harm to poor and vulnerable borrowers.

<sup>415</sup> 2012 PS1, para. 12. and for the MEF investment, see 2006 PS1, para. 12. For the Advans investment, see 1998 ESRP, para. 22, footnote 7. PS1 also requires FI client staff who interact with vulnerable or disadvantaged individuals or groups to be competent in their understanding of relevant specific issues related to such individuals or groups, which may warrant specific training. 2012 PS1, para. 18 and GN79. For the MEF investment, see also 2006 PS1, para. 18.

<sup>416</sup> 2012 Sustainability Policy, para. 13.

<sup>417</sup> Amret project #34748, E&S summary and disclosure <https://bit.ly/3XyuZXz>. Amret, Social Performance Management, <https://bit.ly/4k449PI>

<sup>418</sup> IFC found that Hattha Bank needed to upgrade its ESMS to align with the growth of its SME lending, and required Hatha to enhance its procedures to support the identification, assessment, and management of E&S risks in accordance with the applicable E&S performance requirements, and incorporate requirements and procedures, such as an external communications mechanism for higher risk transactions.

<sup>419</sup> IFC considered ACLEDA’s existing ESMS commensurate with the lower E&S risks of microfinance and SME lending activities, but required the FI to improve E&S due diligence of its corporate lending with higher E&S risks by amending its PS application and building E&S capacity.

consistent with GIIP. In none of the nine direct investments did IFC require the ESMS to identify vulnerable or disadvantaged populations and implement differentiated measures to avoid adverse impacts falling disproportionately on them, or consistently with GIIP for microfinance investments.

Through its investments in the MEF, MIFA and North Haven Thai funds, IFC had indirect exposure to three Cambodian BFIs. As these funds were being created at the time, they had no policies in place during due diligence, with IFC evaluating the potential fund managers’ E&S procedures or E&S questionnaires and discussing reporting requirements.<sup>420</sup> Generally, IFC required its fund clients—Advans, MEF, MIFA, and North Haven Thai—to assign E&S officers and set up and implement an ESMS. The level of detail and requirements varied. For Advans, IFC required in 2005 that its E&S officer receive ESMS training for MFIs, which suggests a client management system tailored specifically for microfinance providers. For MEF and MIFA, without using the term ESMS, IFC required the fund managers to develop and implement a screening procedure to ensure all investments avoided supporting activities on IFC’s Exclusion List, including those expressly excluded for microfinance activities (see section 3.7.1 above). IFC also required the funds to require the MFIs they supported to implement the same procedure, employ qualified persons to manage and implement them, apply the labor standards in Performance Standard 2, and submit periodic reports to IFC on these topics.<sup>421</sup> The legal agreements that established MEF and MIFA also committed the parties to base their operations on best practices for commercial microfinance. In the case of North Haven Thai, IFC required the fund to develop and implement a comprehensive ESMS based on good international E&S risk management practices.<sup>422</sup> However, IFC did not require the ESMS of these fund clients to be capable of identifying vulnerable or disadvantaged populations and implementing differentiated measures so that adverse impacts did not affect them disproportionately, or to be consistent with GIIP.

The target groups of these investments are vulnerable people, as noted in section 4.3.1. However, IFC did not require its direct loan or fund clients to have an ESMS that identified and implemented measures for vulnerable people, despite the well-known social risks and impacts of microfinance on vulnerable people as acknowledged by the World Bank Group, including IFC.<sup>423</sup> In 2009, before all but one of the due diligence for the investments in this case were completed, a World Bank-funded assessment of the global economic crisis in Cambodia indicated that the inability to repay loans was “a grave concern for the poor and vulnerable.”<sup>424</sup> Similarly, since the early 2000s, CGAP, of which IFC is a member, has highlighted the need to implement safeguards to protect vulnerable borrowers from adverse risks and impacts from microfinance investments (see timeline in section

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<sup>420</sup> In the case of Advans, there is little record of the ESDD done in 2004 but project documents suggest it was a limited desk review that included some review of the sponsor’s and future fund manager MFI capacity but not of its ESDD capacity.

<sup>421</sup> MEF project #27827 <https://bit.ly/3FHiOG4>; MIFA project #31467 <https://bit.ly/3DJCC6P>.

<sup>422</sup> North Haven Thai project #38609 <https://bit.ly/4iHCvbi>

<sup>423</sup> See among others: The World Bank, The Global State of Financial Inclusion and Consumer Protection, 2022 Report, <https://bit.ly/4hzPj1M>, World Bank Group, Good Practices for Financial Consumer Protection, 2017 Edition, <https://bit.ly/3FndD9N> IFC, Small Beginnings for Great Opportunities: Lessons Learned from 20 Years of Microfinance Projects in IFC, 2017, <https://bit.ly/4bPhVvk>; IFC, Progress in Responsible Financial Inclusion: Global Mapping Report and Selected Case Studies, 2013, <https://bit.ly/4hrB1R5>.

<sup>424</sup> Theng Vuthy and Kem Sothorn, Rapid Assessment of Impacts of Global Economic Crisis on Cambodian Households: Effects and Coping Strategies, Cambodia Development Review, Volume 13, Issue 3, July-September 2009 <https://bit.ly/3FotK72>.

### 3.7.2 and Annex B).

#### *Ensuring consistency with national law*

Under its Sustainability Policy, IFC must review and require its clients’ E&S risk management to ensure it is consistent with good international industry practice and national law. In the context of this investigation, this includes establishing specific measures to protect vulnerable groups.

In Cambodia, as part of its due diligence, IFC is also required to review FI clients’ compliance with relevant national regulations regarding the prohibitions on local authorities participating in lending and collection activities (since 2017<sup>425</sup>) and on all forms of threats and intimidation in the loan recovery process (since 2019<sup>426</sup>). However, IFC’s due diligence of the BFIs’ lending and collection practices was limited to a financial perspective (see section 4.3.1) and CAO found no evidence that IFC ensured its clients and sub-clients followed relevant national regulation against either threats and intimidation or the involvement of local authorities. Instead, as described above, two BFIs in this case instruct their staff to involve local authorities in sales, while all six IFC clients and sub-clients involve them in their debt collection strategies (see section 4.2). IFC has argued that some of the practices alleged by complainants as “involvement of local authorities” are part of the role given to local authorities in Cambodia to mediate disputes, and thus not prohibited under Cambodian regulation. Whether the specific practices violated the relevant national sub-decree is outside CAO’s mandate and for the national authorities to determine. However, CAO notes that there is no evidence in project documents that IFC reviewed and ensured that its clients and sub-clients complied with the relevant national regulation, despite the fact that the Ministry of Interior’s sub-decree was likely issued in response to the social problems observed in the Cambodian microfinance sector (see section 1.2).

#### *Ensuring consistency with GIIP*

Performance Standard 1 requires clients to design and implement mitigation measures and management programs in line with GIIP. Over the past two decades, good international industry practice for microfinance has evolved to address the negative impacts and harms that poorly designed or implemented microfinance can have on vulnerable populations. The resulting standards guide lenders to: (i) design products to avoid borrower harm; (ii) assess repayment capacity accurately; (iii) provide clear, sufficient, and timely information for informed decision-making; and (iv) ensure fair and respectful treatment, with safeguards against aggressive or abusive practices (see timeline in section 3.7.2).

IFC’s E&S due diligence did not include reviewing the BFIs’ lending and collection practices. However, as explained in section 4.1, for most investments in this case such practices were

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<sup>425</sup> Ministry of Interior. (2017). Ministerial order No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators. Phnom Penh. The text of the order indicates that “Unless legally required to engage in the enforcement of a court judgement, district/Municipality/Khan, commune/Sangkat, and village authorities shall not act jointly with private banks, MFIs and rural credit operators, (which causes misunderstanding among people that these banks, MFIs and operators are state-owned) including serving as guarantors in a loan transaction or as agents or debt repayment guarantors, or demanding repayment from people, advertising for any financial institution, or taking part in seizing people’s collateral.”

<sup>426</sup> Article 19 of the Consumer Protection Law –Royal Government of Cambodia (2019). Law on consumer protection (NS/RKM/1119/016). Phnom Penh.

examined by an IFC microfinance specialist or industry specialist as part of IFC’s Financial Inclusion and Consumer Protection Strategy.<sup>427</sup> For every investment, IFC’s industry specialist review of client policies had a financial focus that considered the investment’s impacts on the FI’s profitability and on the market, but not whether the FIs’ policies and practices were consistent with PS1 requirements to identify and mitigate impacts on vulnerable groups, as informed by GIIP. While IFC noted concerns about rapid market expansion, high levels of competition among lenders, and the potential for borrowers to become over-indebted, it did not assess the potential social risks and impacts that these circumstances might create for microfinance borrowers and vulnerable populations.

Thus, in all but one investment in Hattha Bank (explained below), IFC did not require its clients to align its policies to GIIP standards and relevant national law. In general, the financial reviews did not look for the consistency of the FIs’ lending and collection practices with GIIP to avoid social risks and impacts to vulnerable populations from harmful practices, such as those identified in section 4.2.1 above.

In 2011 and 2017, practices like the use of local authorities in lending and collection processes or the overreliance on land collateral were noted in IFC financial reviews for projects with two of these Cambodian FI clients, but IFC did not raise concerns to the clients regarding their potential harmful impact on borrowers. In 2014, IFC acknowledged during its due diligence of one of these FI clients that the sector was experiencing pockets of over-indebted clients who could experience erosion in their quality and standards of life, and that this required several measures, among them debt counseling, prevention of excessive or unfair practices and services to distressed borrowers, and measures by MFIs to proactively strengthen their responsible finance practices. However, no specific measures were adopted in response to these observations for that particular investment.

By 2020, IFC was aware of the risks of over-indebtedness in Cambodia, and the allegations of harmful lending practices causing social harms<sup>428</sup> (see section 1.2 and timeline in section 3.7.2). During due diligence of the five direct investments approved after 2020 (involving ACLEDA, Amret, and Hattha Bank), IFC remained aware, through its industry and policy-level activities in Cambodia (see section 4.1 above), of the sector-wide allegations of social harm to borrowers. However, in all cases, rather than conducting more thorough project-level- reviews of client lending and collection practices to reduce, avoid, and mitigate social harms, IFC responded by citing its activities at the industry and policy level. These included, for example: the development of the CBC; IFC’s collaborations with the CBC, NBC, and CMA to promote voluntary responsible finance principles and client protection practices in the sector; and other advisory services IFC had provided at the industry or policy level (see section 4.1 above).

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<sup>427</sup> There is no evidence that a microfinance or other banking specialist participated in the due diligence regarding the Advans (2004) or North Haven Thai (2018) investments.

<sup>428</sup> In 2020 the MIMOSA Report commissioned by IFC concluded that Cambodia has reached the maximum level of market saturation. The report highlighted the absence of consumer protection and regulatory oversight, particularly in debt collection practices, and warned of the growing risks of over-indebtedness. Mimoso Report, 2020, p.7 While concerns over the social impacts of over-indebtedness were raised publicly since at least 2009, from 2019 onwards several studies and reports (from or commissioned by the World Bank Group, Cambodian industry associations, NGOs, UN bodies and others) more consistently identified, called out and warned about negative financial practices that was driving the most vulnerable Cambodian borrowers to resort to food reduction, land sales, children dropping out of school as coping mechanisms from their lack of repayment capacity, combined with weak government oversight and regulation on consumer protection, and lack of alternative resources to resolve their debt-distress (see section 1.2 above).

This approach did not take into account the sector’s limited regulatory scope and enforcement, despite IFC’s own 2015 determination that stronger oversight was essential to avoid social harms, and the 2020 IFC-commissioned MIMOSA report’s finding that client protection regulations required “substantial strengthening”<sup>429</sup> (see section 1.1 and Annex B).<sup>430</sup> Despite this awareness, IFC did not adjust its due diligence processes for Cambodian BFIs’ lending and collection practices to review and ensure their consistency with GIIP standards and relevant national law, following the requirements in PS1. In most investments included in this case, IFC relied on the clients’ self-reporting of their policies’ compliance with GIIP for microfinance investments, without verification or monitoring. After the 2013 launch of the Smart Campaign certifications (see timeline in section 3.7.2), IFC also took into account third-party audits and certifications of client compliance with microfinance GIIP in seven of nine direct investments.<sup>431</sup> IFC did not verify such compliance directly, but included a covenant in the investment legal agreements committing the client to comply with Smart Campaign standards or general GIIP for protecting financial consumers.<sup>432</sup> These were all affirmative covenants that had no reporting obligations.

While third party certification can be useful, CAO notes that it should not be considered a substitute for IFC’s obligations to review a client’s E&S capacity and ESMS ability to identify, prevent, and mitigate risks to vulnerable people following GIIP, as required by the Sustainability Framework. Credible certifications, when conducted by independent organizations, can provide useful external validation that a financial institution’s policies and procedures meet recognized industry standards, helping to inform IFC’s due diligence. They can also help identify gaps, benchmark performance against peers, and encourage continuous improvement. However, the effectiveness of such certifications depends on the robustness of the methodology, the independence of the certifying body, and the frequency and depth of lender reviews. Without these safeguards, certifications may provide only a partial or outdated picture of actual practices.<sup>433</sup>

CAO notes that all three Cambodian financial institutions where IFC has direct investments have or used to hold third party certifications. Notwithstanding these clients’ self-reporting, affirmative commitments in the legal contracts, and third-party certifications, CAO observed gaps in their lending and collection practices with GIIP standards and relevant national law requirements to prevent and

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<sup>429</sup> In 2016, the CMA issued voluntary Lending Guidelines, and in 2022 ABC and CMA adopted these as part of a Code of Conduct extended to all financial institutions. However, these voluntary standards depend on self-reporting by FIs with enforceability by CMA limited to a non-public letter of reproach. In documentation related to the 13 investments covered by this case, IFC consistently stated that Cambodia had a strong regulatory framework based on a system of multiple prudential regulations (those which aim at protecting the financial system as a whole) to restrict pricing and high-risk financing, enhance capital adequacy, and improve liquidity. It did not integrate into its ESDD analysis and decision-making the absence of non-prudential regulations (those focused on the oversight and conduct of the financial institutions), including client protections to prevent or mitigate adverse social impacts on vulnerable populations targeted by microfinance. United Nations Commission on International Trade Law, Legal and regulatory issues surrounding microfinance: Note by the Secretariat, 1 April 2011, A/CN.9/727, at p. 7 and para. 19.

<sup>430</sup> IFC, Promoting Financial Consumer Protections in Cambodia, 2015, p. 10 and 16. Available at <https://bit.ly/41LJkma>. MIMOSA Report on Cambodia, March 2020, p. 7.

<sup>431</sup> Two projects approved after 2013 do not mention Smart Campaign certification: Amret’s equity investment in 2014 and Aceda’s loan of 2019.

<sup>432</sup> In some cases, such as the Hattha Bank investment #44211 in 2020, IFC indicated the financial institution followed the Smart Campaign guidelines, at the same time it indicated that Hattha Bank had lost its Smart Campaign certification because of its high-risk refinancing had been above the 5% threshold.

<sup>433</sup> A.Ball, D.Owen, R. Gray, External Transparency or Internal Capture? The Role of Third-Party Statements in Adding Value to Corporate Environmental Report, *Business Strategy and the Environment*, 9,1-23, 2000, <https://bit.ly/46S1WSy> V. Desai, Third-Party Certifications as an Organizational Performance Liability, *Journal of Management*, 44-8, Nov.2018, <https://bit.ly/46ABXjJ>

mitigate adverse social impacts on vulnerable populations (see section 4.2.1). For two investments in Hattha Bank in 2021,<sup>434</sup> IFC required the client to undergo a responsible finance assessment by IFC Advisory Services after it lost its Smart Campaign certification in 2018. Carried out between December 2021 and July 2022, the assessment identified improvements to Hattha Bank’s policies and procedures, which were subsequently addressed. Prior to this review, Hattha Bank received six loans from IFC between 2014 and 2020<sup>435</sup> which failed to identify these gaps by relying on the client’s self-reporting and the Smart Campaign certification granted in 2016.<sup>436</sup>

A comprehensive review of the clients’ lending and collection policies consistent with IFC requirements to identify, assess, and mitigate social impacts on vulnerable microfinance borrowers, could have enabled IFC to identify gaps in policies and practices against relevant PS, and provide guidance to its clients on:

- **Improving debt assessment practices** through the CBC, which was designed and implemented with IFC financing, so that borrower reports are done in the local language, and credit officers receive proper training on how to interpret them to properly assess borrowers’ repayment capacity
- **Limiting harmful collateral practices** by not accepting land collateral as a substitute for the assessment of a borrower’s repayment capacity and including certain types of property as unacceptable due to the hardship it could cause vulnerable borrowers (homes and income-generating land, for example)
- **Strengthening safeguards against aggressive collection** by incorporating adequate safeguards and strengthening oversight processes to prevent and address aggressive behavior by FI staff against borrowers.

#### *4.3.1.3 Conclusion regarding IFC compliance with Sustainability Policy requirements during due diligence related to vulnerable groups*

Based on the above, CAO finds that IFC did not carry out its pre-investment due diligence in a manner proportionate to the nature, scope, and specificity of the FI projects, as required by the Sustainability Policy (2012 IFC Sustainability Policy, paras. 7, 19, 21, 32, and 33).<sup>437</sup> IFC’s due diligence did not identify borrower vulnerability as a risk nor did it identify the appropriate requirements to manage those risks (2012 IFC Sustainability Policy, para. 34).<sup>438</sup> Hence, by not considering the known and significant potential social impacts on microfinance borrowers, IFC’s categorization of the investments did not take into account the full scope of E&S risks and impacts of microfinance investments, within the context of the business activity in Cambodia (2012 Sustainability Policy, paras. 32, 34, 40, and 42).<sup>439</sup> Further, IFC did not comply with its

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<sup>434</sup> IFC Projects #44742 and #45535 which were processed together.

<sup>435</sup> IFC projects #36242, #38239, #39167, #41223, #40898, #44211 and #45996 and #45535.

<sup>436</sup> Of those seven loans, this case includes two, Hattha Bank projects #39167 and #44211, approved in 2017 and 2020 respectively.

<sup>437</sup> For the MEF investment, 2006 Sustainability Policy, para. 8, 13, 27, 29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>438</sup> For the MEF investment, 2006 Sustainability Policy, para. 28. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

<sup>439</sup> For the MEF investment, 2006 Sustainability Policy, para. 13, 18, 27-29. For the Advans investment, see IFC OP 4.01 and the 1998 ESRP.

Sustainability Policy obligations related to the FI clients’ E&S Management Systems and their capacity to manage E&S risks of microfinance, including identifying, preventing, and mitigating risks to vulnerable microfinance borrowers, consistent with GIIP standards, and in compliance with relevant national law, following the requirements of PS1 (2012 Sustainability Policy, paras. 22, 31-35).<sup>440</sup>

As a result of these significant gaps, CAO concludes that IFC’s due diligence fell short of Sustainability Policy requirements as it did not include an adequate E&S review and missed opportunities to identify gaps of its investments with PS1, require client corrective measures, and ensure that financed activities avoided or mitigated adverse social impacts on the vulnerable borrowers and their households.

#### **4.3.2 IFC’s actions during supervision of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA**

##### *4.3.2.1 Supervision of IFC’s direct investments (ACLEDA, Amret, and Hattha Bank)*

IFC has supervised investments covered by this case from 2005 to the present. During all this time, since IFC’s due diligence did not identify the potential adverse social impacts and risks of its lending to vulnerable populations, including microfinance borrowers, IFC did not supervise its clients’ management of such risks and impacts following project approval. Lack of supervision in this area meant IFC did not impose reporting requirements on its clients regarding measures to mitigate negative social impacts and risks from their lending or collection practices.

In six of the 13 investments, the legal agreements included affirmative covenants where the clients committed to apply GIIP standards regarding microfinance (see section 4.3.1 above). These standards include those discussed above to prevent and mitigate social impacts on vulnerable populations (see section 4.2.1). However, these affirmative covenants do not impose reporting obligations on the client, and IFC has little leverage or recourse to enforce them or require their fulfillment, short of calling default on the contract. At the same time, IFC did not make use of GIIP that developed during the course of its investments to work with clients on preventing and mitigating adverse social impacts, as well as on improving development outcomes, as part of the more general requirement of having an ESMS that is consistent with PS1.

Overall, IFC’s supervision of the direct investments was limited. For two of the three investments categorized as FI-03 – Hattha Bank (Project #44211) and Amret (Project #44231) – IFC decided not to actively supervise these projects based on its assessment that these projects presented negligible or low E&S risks.<sup>441</sup>

In its monitoring of the investments in ACLEDA (projects #42480 and 44882) and Hattha Bank (projects #44535 and 44742) categorized as FI-02 between 2020 and 2022, IFC noted NGO and media reports of human rights abuses related to irresponsible lending and over-indebtedness that involved Acleda and Hattha Bank. While IFC’s E&S supervision reports described the issues as

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<sup>440</sup> For the MEF investment: 2006 Sustainability Policy, para. 17, 27-29.

<sup>441</sup> It was only expected that the clients report on its financing activities to IFC in order for IFC to confirm that the scope of the client’s portfolios had not materially changed. This same decision was not made regarding the third FI-03 project included in this case: Hattha Bank project #39167.

critical, they did not include further review, analysis or discussion with the clients, on the basis that the issues raised were considered outside the scope of IFC’s E&S policies, and thus not part of the E&S supervision. IFC continued to rate the FIs’ project-level E&S performance as satisfactory without any further consideration of the NGO and media reports. This did not change after 2021 when several UN entities began reporting at least yearly on significant social harms caused by microfinance lending in Cambodia (see timeline in section 3.7.2).

#### 4.3.2.2 *Supervision of IFC’s investments in North Haven Thai, Advans, MEF, and MIFA*

Following the Sustainability Policy, IFC’s supervision obligation is to monitor client compliance with Performance Standards requirements, require regular reporting on the implementation of E&S requirements, and review such information (Sustainability Policy, paras. 7, 24, and 45).

As explained above, IFC required during due diligence that the funds it financed, which in turn financed Cambodian BFIs, establish and implement an ESMS. For MEF, MIFA, and North Haven Thai, IFC imposed requirements that the ESMS apply best practices for microfinance or best industry practices (see section 4.3.1). As part of their management systems, the funds incorporated processes to assess the sub-clients’ (investees) lending and collections practices for consistence with GIIP as part of their E&S due diligence and monitoring. Below, CAO presents its analysis of the funds’ due diligence and monitoring of their sub-clients in accordance with their ESMS and IFC’s E&S requirements.

From 2009 to 2018, MEF did not explicitly identify, review, or monitor impacts on vulnerable groups, as would be required by an ESMS compliant with PS1. However, it did report on its investees’ compliance with GIIP for microfinance, namely the Client Protection Principles (CPP),<sup>442</sup> which MEF incorporated into its E&S systems and template E&S report to IFC.<sup>443</sup> In 2010, MEF began reporting to IFC on its portfolio’s adherence to GIIP, including for ethical staff behavior, appropriate collection practices, and avoidance of over-indebtedness. This reporting was aggregated, did not specify individual MFIs, relied on self-reporting by these sub-clients, and lacked proof of MFI adherence to GIIP. Since MEF was not reporting on individual MFI’s adherence to these standards, CAO does not have information on whether MEF’s sub-clients (Hattha Bank, PRASAC, Amret, and LOLC) applied GIIP to identify, prevent, and mitigate social impacts on vulnerable groups, including microfinance borrowers, through CPP implementation. From 2016, MEF provided more detailed reports about each MFI to IFC on social performance and CPP indicators such as portfolio quality (an indicator of avoiding client over-indebtedness), average loan costs, and respectful treatment of clients. These reports were again based on self-reporting by the investees and did not detail how MEF assessed its own compliance with the social performance indicators.

IFC’s reviews of MEF’s E&S reporting occasionally noted MEF’s information on investee social performance and compliance with GIIP, but mostly focused on the fund managers’ screening and supervision of banks and MFI investees. IFC monitoring between 2010 and 2018 noted that MEF’s three investment advisors, Cyrano, BlueOrchard, and responsAbility (see section 2.1.4) did not have E&S Management Systems in place as required by IFC’s E&S policies, but did employ

<sup>442</sup> Particularly, it started reporting on the investees adherence to client protection principles.

<sup>443</sup> CAO does not have records of MEF’s E&S reporting after 2018, nor of IFC’s monitoring in 2022 and 2023

internal ESG rating systems in their investment decision-making. IFC did not follow up with any requirements for additional actions or request harmonization of E&S procedures to allow for more effective and uniform monitoring.<sup>444</sup>

From 2010 to 2018, MEF’s reporting referenced the Smart Campaign and relevant indicators, although certification was not required fund-wide.<sup>445</sup> In 2019, Incofin came in as a new investment advisor<sup>446</sup> and assumed the management of MEF’s investments in Amret and LOLC. That same year, MEF adopted the fund-wide use of ALINUS, a tool developed by the non-profit CERISE and used by Incofin, for coordinating social performance analysis. In 2021, IFC’s E&S team highlighted MEF’s use of this tool and noted that MEF investees demonstrated stronger social performance than their peers, as evidenced by higher ALINUS scores. In 2020, IFC noted in its MEF E&S review that Incofin loan agreements included social covenants such as endorsement and implementation of the CPPs, and responsible pricing clauses. However, IFC did not follow up on or further assess the application of GIIP by the fund or its investees.

MIFA, managed by BlueOrchard, reported to IFC on CPP but did not specifically address potential impacts on and mitigation measures for vulnerable populations. BlueOrchard informed CAO that it conducted on-site due diligence and monitoring of sub-clients every three years. The fund manager does not require third party certification of investee E&S information but uses a tool called SPIRIT<sup>447</sup> as a scorecard for ESG impacts, based on investee reporting.<sup>448</sup>

From 2014 through 2017,<sup>449</sup> MIFA's own reporting included a questionnaire filled out by the MFIs in its portfolio, indicating whether they endorsed principles to ensure fair treatment of borrowers, such as the Smart Campaign CPPs. In 2014, AMRET and Hattha Bank both indicated they endorsed CPP and in subsequent years, LOLC, Sathapana, and PRASAC also confirmed their endorsement. However, in 2020, MIFA reported that Sathapana answered “no” to endorsing CPP, a potential warning sign on which IFC did not follow up. IFC reviews of MIFA’s E&S reports

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<sup>444</sup> BlueOrchard and responsAbility had formal internal ESG scoring/rating/monitoring systems, (BlueOrchard used SPIRIT (Social Performance & Impacts Reporting Intelligence Tool); while Cyrano did not appear to have a formal system.

<sup>445</sup> CPP certification was not required, but MEF reported that BlueOrchard encouraged its MFIs to obtain certification, which was considered in their evaluation. Incofin joined in 2019 and included a certification requirement in their loan agreements, but this did not apply fund-wide.

<sup>446</sup> MEF Annual Report 2023, p.1. <https://bit.ly/4lcFoT6>. Incofin, conducts on-site due diligence and annual monitoring visits, during which they review policies and loan files, and interview management, branch staff, and clients. Incofin’s monitoring also covers complaint mechanisms, collateral foreclosure levels, market-level monitoring, ALINUS social performance score annual assessments, and third-party assessments like 60 Decibels, they monitor other social goals, such as commitment to social goals, product meeting clients’ needs, treating clients responsibly, and balancing social and financial performance. Incofin has also included a requirement for CPP certification in its legal agreements. Since 2022, Incofin has raised the standard to a GOLD SPTF/Cerise certification for MFIs in Cambodia due to the over-indebtedness situation, which is above market standard.

<sup>447</sup> The SPIRIT tool evaluates policies. The ESG impact scorecard assesses impact potential, providing an overall score that must exceed 50 for approval. The data primarily comes from investees, with some factors assessed using external data (such as country-level information) and others derived from BlueOrchard’s credit score. During Factual Review and Comment, MIFA mentioned that SPIRIT evolved into B.Impact in 2023, with two scorecards, one to assess impact and the second one to assess risk. Both scorecards provide an overall score that must exceed 50 for approval.

<sup>448</sup> On-site due diligence includes procedures and loan reviews, branch visits and interviews of end borrowers only if concerns arise. BlueOrchard shared with CAO that their due diligence is at the process level, not transaction level. Monitoring is conducted on a quarterly basis, including information related to impact, portfolio breakdown by geography and gender, and impact KPI-related data. Every two to three years, a field visit is conducted, including management and branch reviews, with visits of end-borrowers only in exceptional cases. In addition, ad hoc risk focused due diligence can occur and can require the focus on any significant risk an institution may be facing.

<sup>449</sup> CAO does not have records of MIFA’s E&S reporting from 2022 and 2023, nor of IFC’s monitoring in 2023.

focused on BlueOrchard’s processes, and from 2014 to 2022 IFC did not follow up on CPP application by MIFA investees.<sup>450</sup>

North Haven Thai, which holds a 3.5% shareholding in ACLEDA, did not explicitly report on ACLEDA’s performance regarding the impact of its activities on vulnerable borrowers, nor provide information on how it supervised investee practices. In its 2023 annual E&S report, North Haven Thai informed IFC that the ESAP agreed with ACLEDA included a requirement that the investee adopt the Smart Campaign in its daily operations, marking this item as ongoing. IFC did not follow up on this ESAP item between North Haven Thai and ACLEDA regarding GIIP compliance, but did recommend that the fund manager develop a structured approach for monitoring ESAP implementation across its investments and follow up more closely on their closure.

Lastly, Advans began reporting to IFC on its performance commitments, including sustainable and responsible business practices, from 2009 onwards. From 2011, it included updates on its affiliates’ commitments to prevent over-indebtedness and ensure fair and respectful treatment of clients including by endorsing the Client Protection Principles. Between 2011 and 2014, Advans informed IFC that its affiliates used a cash-flow-based lending approach to analyze clients’ repayment capacity,<sup>451</sup> monitor the quality of services provided, and implement a defined framework for debt recovery to avoid coercive methods. However, no specific information on implementation by the different affiliates, including Amret, was provided. In 2014, Advans informed IFC that Amret was obtaining a certificate confirming its compliance with the Smart Campaign Principles. In 2015, IFC’s E&S supervision records noted that affiliates were required to submit an annual Smart Campaign self-assessment, without any further discussion. As with the other funds, IFC’s supervision documentation of the Advans investment does not describe specific consideration of vulnerable populations or measures to protect them.

#### *4.3.2.3 Conclusion regarding IFC’s Sustainability Policy compliance during supervision related to vulnerable groups*

CAO finds that IFC did not meet its obligations under the 2012 Sustainability Policy<sup>452</sup> to ensure, through monitoring and supervision, that its microfinance investments in Cambodia were implemented in a manner consistent with Performance Standard 1, good international industry practice, and relevant national regulations. IFC did not establish reporting requirements or monitor lending and collection practices that could adversely affect vulnerable borrowers.

In part, this resulted from IFC not recognizing microfinance borrowers and their families as vulnerable groups during due diligence, which meant related social risks and impacts were not incorporated in IFC’s supervision of the investments in this case. However, IFC also failed to take into account rising concerns about the risks of over-indebtedness linked to microfinance and related serious social harms in Cambodia, raised from 2009 onwards. Despite increasing evidence from the World Bank, UN agencies, and others, IFC did not adjust supervision of the 13 investments to ensure client business activities complied with PS1, including established good

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<sup>450</sup> In 2021, BlueOrchard conducted end-client surveys and indicated that 321 clients were randomly selected for each MFI in Cambodia in which 99% of surveyed borrowers said MFI staff had never suggested they sell their land to pay for a loan or unethically forced them to sign documents.

<sup>451</sup> Advans provided further details indicating that Advans affiliates visit homes and business, carry out systematic checks on clients’ financial history, work with credit bureaus when possible.

<sup>452</sup> Sustainability Policy 2012, para 45.

international industry practice designed to identify, avoid and mitigate adverse social impacts to vulnerable borrowers and their households.

### **4.3.3 Conclusions on IFC’s compliance with its due diligence and supervision obligations**

CAO finds that IFC did not meet its obligations to ensure:

- Through its due diligence, monitoring, and supervision efforts that the business activities it finances meet PS1 requirements within a reasonable period of time, or to protect vulnerable groups by designing and carrying out its investments with the intent to “do no harm” to people, “to enhance the sustainability of private sector operations”, and to ensure that the costs of economic development do not fall disproportionately on those who are poor or vulnerable (2012 Sustainability Policy, paras. 7, 9 and 22).
- That its clients and sub-clients established and implemented an ESMS consistent with PS1, with the capacity to identify individuals and groups that may be directly and differentially or disproportionately affected due to their disadvantaged or vulnerable status, and propose and implement differentiated measures so that adverse impacts do not fall disproportionately on them, or identify, prevent and mitigate social risks and impacts following GIIP (2012 Sustainability Policy, paras. 33 and 35, and PS1, paras. 7 and 12).<sup>453</sup>
- That its clients and sub-clients followed relevant national regulation against threats and intimidation and the involvement of local authorities in the activities of BFIs that could create misunderstandings between state and private sector actions, as required by its E&S policies (2012 Sustainability Policy, para. 35, PS Overview, para. 5).<sup>454</sup>

## **4.4 IFC’s compliance with its Sustainability Framework obligations regarding Indigenous Peoples**

IFC’s microfinance clients in Cambodia operate in areas where Indigenous Peoples (IPs) live and are borrowing from BFIs. As described in sections 3.7 and 4.2.2, IFC E&S policies contain specific requirements for clients to prevent adverse impacts to Indigenous Peoples, through the establishment of an ESMS that adheres to:

- PS1 principles to identify impacts and implement mitigation measures consistent with GIIP
- PS7 requirements to avoid adverse impacts to Indigenous Peoples and adapt processes to their culture and practices
- The IFC Exclusion List, which prohibits microfinance activities that impinge on the land of

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<sup>453</sup> For the MEF investment: 2006 Sustainability Policy, para. 27-29, and 2006 PS1, para. 4, 8 and 12. For the Advans investment, see 1998 ESRP, para. 22, footnote 7.

<sup>454</sup> For the MEF investment: 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, see also IFC OP 4.01, para. 9.

Indigenous Communities without the full documented consent of the community<sup>455</sup>

- Relevant national law, which in Cambodia prohibits lenders from accepting Indigenous land as collateral.

#### **4.4.1 IFC’s actions during due diligence of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA**

The Sustainability Policy requires that, during the pre-investment phase, IFC:

- Review FI clients’ business activities to identify potential risks to Indigenous Peoples<sup>456</sup>
- Review the clients’ E&S capacity and ESMS, and its ability to identify, prevent or mitigate adverse impacts on Indigenous Peoples, consistent with PS1, PS7, relevant GIIP, relevant national law and the IFC Exclusion List
- Require clients to meet these requirements during the investment.

##### *4.4.1.1 Identification and review of potential impacts from FI activities on Indigenous Peoples and the client’s capacity and ESMS*

CAO’s investigation found no evidence that IFC reviewed during pre-investment due diligence the potential risks and impacts on IP borrowers of the investments associated with this case. Nor did CAO find evidence that IFC reviewed its clients’ capacity, including through their E&S Management Systems, to identify impacts on Indigenous Peoples or implement related mitigation measures. Moreover, as explained above, while IFC required clients to implement an ESMS, CAO found no indication that IFC reviewed whether these systems could identify and address impacts on Indigenous Peoples, or that did IFC required clients to implement measures to avoid adverse impacts on Indigenous borrowers.

For the nine direct investments in Acleda, Amret, and Hattha Bank, IFC either concluded there was a low likelihood that the sub-borrowers’ activities would generate significant E&S risks and impacts related to Indigenous Peoples or cultural heritage, or established that the project would not support higher-risk business activities that may include such risks.<sup>457</sup> IFC’s due diligence review, however, did not include an assessment of the broader risks and impacts of microfinance lending activities on Indigenous borrowers.

IFC took a similar approach to the four investment funds—MEF, MIFA, Advans, and North Haven Thai. CAO found no evidence that IFC assessed or required these funds to assess whether their

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<sup>455</sup> 2012 Sustainability Policy, para. 35, 2012 PS1, para. 7, and 2012 PS7, paras. 1, 8 and 9, and IFC Exclusion List. For the MEF investment, see 2006 Sustainability Policy, para. 28, 2006 PS1, para. 4, 2006 PS7, paras. 1, 7 and 8.

<sup>456</sup> 2012 Sustainability Policy, para. 34. For the MEF investment, see 2006 Sustainability Policy, para. 28, and for the Advans investment, see general obligation of social risk assessment in IFC OP 4.01 and 1998 ESRP.

<sup>457</sup> E&S summary and disclosure for ACLEDA projects #42480: <https://bit.ly/4hMGUJz>; project #44882 <https://bit.ly/4i1vEJj>; Amret projects #34748 <https://bit.ly/3XyuZXz>; #41294 <https://bit.ly/3QNFd2E>, project #44231 <https://bit.ly/42fxkt3> Hattha Bank projects #39167 <https://bit.ly/3FDYn8B>, #44211 <https://bit.ly/3Xz7PjY>, #44742 <https://bit.ly/4c3Tlyt>, #45535 <https://bit.ly/4j0lqHU>.

investees’ activities could have broader impacts on Indigenous Peoples in the regions where they operate.<sup>458</sup>

CAO also found no evidence that IFC reviewed whether the lending and collection policies and practices of any of these financial institutions were consistent with relevant GIIP standards.<sup>459</sup>

Impacts of microfinance debt on Indigenous Peoples’ land and community cohesion were documented as early as 2013<sup>460</sup> and reported from 2018 onwards.<sup>461</sup> In 2018, OHCHR published an assessment of credit opportunities for Indigenous communities in Cambodia, noting a general increase of indebtedness among Indigenous Peoples, and, in some communities, challenges in communal land registration due to concerns that individual members might lose access to credit opportunities. The report also highlighted the need for larger group loans for Indigenous communities and financial literacy programs.<sup>462</sup> In 2020, the World Bank’s Land Allocation for Social and Economic Development (LASED) project, which aims to strengthen land tenure security and promote inclusive development for Indigenous and rural communities in Cambodia, also identified challenges to communal titling processes. LASED found that these were driven by interests or incentives for community members to seek individual titles that could be used as collateral for loans, rather than choose communal landownership under ICLT.<sup>463</sup>

Despite this context, CAO found no evidence that IFC reviewed or considered the potential impacts on Indigenous Peoples, or related client capacity, in its investments related to this case, including the five made after 2018.<sup>464</sup>

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<sup>458</sup> MEF project #27827 <https://bit.ly/3FHjOG4>; MIFA project #31467 <https://bit.ly/3DJCC6P>; Advans project #21856 <https://bit.ly/4hB9v3o>, and North Haven Thai project #38609 <https://bit.ly/4iHCvbj>.

<sup>459</sup> GIIP for microfinance investments calls for financial products to be designed in ways that avoid harm to BFI clients and benefit them. This includes adapting products to the specific needs and circumstances of the communities served. GIIP standards regarding transparency further require that microfinance providers communicate clear, sufficient, and timely information to borrowers in a manner and language that they can understand, so that borrowers can make informed decisions. See: Cerise+ SPTF, A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management, Standards 3B, 4B <https://bit.ly/4mlrsRz>; Center for Financial Inclusion, Accion, Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Protecting and Empowering Financial Consumers, June 2019, p. 8, <https://bit.ly/4kw6Dao>.

<sup>460</sup> The paper linked tensions around community members wanting to leave ICLT processes and certification, due to the need for individual land titles to access credit options. Milne, Sarah Under the leopard's skin: Land commodification and the dilemmas of Indigenous communal title in upland Cambodia. *Asia Pacific Viewpoint* 54(3), 2013.

<sup>461</sup> UN OHCHR, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People Communities in the Provinces of Ratanakiri, Monduliri and Kratie, October 2018, p.25, 27 <https://bit.ly/4bSh11P>. Brook, Jack, “Land loss and debt: the bottom line for misleading microloans”, *South East Asia Globe*, May 2022, available at <https://bit.ly/44C6L0s>. De Lange, Emiel, Raj, Sushil Raj, and Yun Mane, Indigenous land rights are key to conservation in Cambodia (commentary), *Mongabay*, December 2023, <https://bit.ly/4kRGaob>; Baird, Ian G., Indigenous communal land titling, the microfinance industry, and agrarian change in Ratanakiri Province, Northeastern Cambodia, *The Journal of Peasant Studies*, 2024.

<sup>462</sup> UN OHCHR, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People Communities in the Provinces of Ratanakiri, Monduliri and Kratie, October 2018, p.25, 27 <https://bit.ly/4bSh11P>.

<sup>463</sup> See: World Bank Group, Land Allocation for Social and Economic Development Project III, project #P171331, p.9, <https://bit.ly/43CGnoC>

<sup>464</sup> Sustainability Policy, para 7, states that: “While managing environmental and social risks and impacts in a manner consistent with the Performance Standards is the responsibility of the client, IFC seeks to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards”

#### 4.4.1.2 Exclusion List prohibition on impinging on land of Indigenous Peoples without their consent

The only Indigenous Peoples-related requirement identified in IFC’s due diligence for these investments concerned the Exclusion List prohibition on financing microfinance activities “that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples”.<sup>465</sup> For all 13 investments, IFC determined that the FIs’ activities were not exposed to the Exclusion List. For the Hattha Bank projects #39167, #44742 and #45535, and ACLEDA project #42480, IFC made this determination on the basis of client self-reporting. For the other investments, CAO found no substantiation or record of the source for IFC’s assessment and determination.

In some cases, the limited information gathered by IFC indicated that a more detailed assessment was warranted. For example, IFC’s due diligence for both ACLEDA projects (#42480 and #44882) concluded, without substantiation, that the project did not have any exposure to the Exclusion List activities, yet IFC also recorded that ACLEDA had exposure to rubber plantations. Given that rubber plantations in Cambodia are often established on land claimed by Indigenous Peoples, CAO considers that a more thorough assessment would have identified the risk of impingement on IP land.<sup>466</sup> This is turn would have required follow up to determine whether the respective operations were either not on Indigenous land or had the full documented consent of the Indigenous residents, in order to determine compliance with IFC’s E&S requirements, including the Exclusion List.<sup>467</sup>

IFC required application of the Exclusion List for the nine direct investments in Acleda, Amret, and Hattha Bank<sup>468</sup> and the four funds—MEF, MIFA, Advans and North Haven Thai. The funds were required to apply the Exclusion List to their own business activity and require their investees to do the same.<sup>469</sup> In all investments made after 2012,<sup>470</sup> except for North Haven Thai,<sup>471</sup> the Exclusion List was annexed to the legal agreements between IFC and these clients, with the prohibition of impinging on Indigenous land included.

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<sup>465</sup> IFC Exclusion Lists from 2007 and before. <https://bit.ly/3HJiGT8>

<sup>466</sup> See for reference: Global Atlas of Environmental Justice, Indigenous Peoples land for rubber plantations, Cambodia, <https://bit.ly/424vqKQ>; Gerald Flynn, Vutha Srey, No justice for Indigenous community taking on a Cambodian rubber baron, Mongabay News, 7 Dec 2022, <https://bit.ly/3DOKPLV>; World Rainforest Movement, Cambodia. Rubber Plantations, Protected Areas, REDD+ and Other Threats: A Dramatic Loss for Forest Dwellers, WRM Bulletin 265 30 March 2023, <https://bit.ly/41liivR>; Nehru Pry, Indigenous Cambodians stripped of ancestral land, Mekong Eye, 17 October 2022, <https://bit.ly/4c195IM>, and Malcolm j. Foster and Denis D. Gray, Cambodia’s zeal for rubber drives ethnic group from land, The Seattle Times, March 25, 2016, <https://bit.ly/4c196WS>

<sup>467</sup> Additionally, in ACLEDA loan #44882, IFC did require that higher risks projects in rubber plantations, among other high risk activities, be screened out for financing under this project. <https://bit.ly/4j1vEJj>

<sup>468</sup> E&S summary and disclosure for ACLEDA projects #42480: <https://bit.ly/4hMGUJz>; project #44882 <https://bit.ly/4j1vEJj>; Amret projects #34748 <https://bit.ly/3XyuZXz>; #41294 <https://bit.ly/3QNFd2E>, project #44231 <https://bit.ly/42fxkt3> Hattha Bank projects #39167 <https://bit.ly/3FDYn8B>, #44211 <https://bit.ly/3Xz7PjY>, #44742 <https://bit.ly/4c3Tlyt>, #45535 <https://bit.ly/4j0lqHU>.

<sup>469</sup> MEF project #27827 <https://bit.ly/3FHjOG4>; MIFA project #31467 <https://bit.ly/3DJCC6P>; Advans project #21856 <https://bit.ly/4hB9v3o>, and North Haven Thai project #38609 <https://bit.ly/4iHCvbj>.

<sup>470</sup> In the case of Advans and MEF, the two investments done before 2012, amendments were made in 2020 and 2021, respectively, to include requirements regarding client protection principles and the Exclusion List.

<sup>471</sup> The Exclusion List attached to the North Haven Thai legal agreement, and which the FI commits to apply, does not have the items related to microfinance and the prohibition of impingement on Indigenous Land.

However, CAO found no evidence in IFC’s appraisal records that IFC provided guidance to the FI clients on the meaning and scope of the Exclusion List item regarding Indigenous Peoples’ land for any of the 13 investments.<sup>472</sup> Specifically, there was no evidence that IFC explained the need to avoid adverse impacts on such land, even when not formally recognized, or the need for other adjustments such as translating documents and providing interpretation in local languages when operating in areas with a majority Indigenous population. Indeed, CAO observed during its site visit and interviews with local branch staff, particularly in regions with a majority IP population, that BFIs had only a superficial understanding of the Exclusion List requirement prohibiting their activities from impinging on IP land.

CAO also found no evidence that IFC reviewed client and sub-client compliance with national regulation related to Indigenous Peoples and the prohibition on accepting land situated within ICLTs as loan collateral.

#### *4.4.1.3 Conclusions regarding IFC compliance with Sustainability Policy requirements during due diligence related to Indigenous Peoples*

CAO finds that IFC did not review potential client and sub-client impacts on Indigenous Peoples, and related mitigating measures, despite many of those FI clients operating in IP-majority regions. While all investments required clients to apply the Exclusion List, CAO found that IFC’s review of its clients’ application was minimal. In all cases, IFC limited Exclusion List application to the potential impacts of sub-projects (i.e., borrower activities) but not the FIs’ own activities.<sup>473</sup> CAO found no evidence that IFC provided clients with information on how to address non-formally recognized IP land or that clients understood how to do so. Moreover, IFC accepted its clients’ self-reporting, without conducting substantiation, that their projects would not adversely affect Indigenous Peoples or carry significant risks to or impacts on their environment and cultural heritage.

CAO also finds that, despite IFC’s microfinance clients in Cambodia operating in some IP-majority regions and a growing evidence since 2018 of microfinance risks to and adverse impacts on IP communities in Cambodia,<sup>474</sup> IFC continued to approve new investments without adjusting its E&S due diligence to incorporate these risks in line with the Sustainability Policy and the IFC Exclusion List. The World Bank’s own LASED project identified the risk of microfinance operations to the IP

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<sup>472</sup> In the case of the Amret equity investment #34748 (2014), there is evidence that advice was provided regarding the tobacco and alcohol items in the Exclusion List. A requirement was added to that investment for Amret to modify the Exclusion List in its E&S policy to include the full IFC Exclusion List, because the items regarding tobacco and alcohol were not included at that point. <https://bit.ly/3XyuZXz>.

<sup>473</sup> There is nothing in the wording of the IFC Exclusion List that limits its application to the activities of the sub-projects and excludes the activities of the FI themselves. IFC’s MFI Exclusion List applies to all actors involved: a) IFC’s clients, when for example purchasing land to establish an office, b) IFC’s sub-clients, when using indigenous land for production, activities, or as collateral, and c) people affected by IFC’s sub-clients’ activities such as logging, agricultural concessions, plantations, tourism etc.

<sup>474</sup> UN OHCHR, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People Communities in the Provinces of Ratanakiri, Monduliri and Kratie, October 2018, p.25, 27 <https://bit.ly/4bSh11P>. Brook, Jack, “Land loss and debt: the bottom line for misleading microloans”, *South East Asia Globe*, May 2022, available at <https://bit.ly/44C6L0s>. De Lange, Emiel, Raj, Sushil Raj, and Yun Mane, Indigenous land rights are key to conservation in Cambodia (commentary), *Mongabay*, December 2023, <https://bit.ly/4kRGaob>; Baird, Ian G., Indigenous communal land titling, the microfinance industry, and agrarian change in Ratanakiri Province, Northeastern Cambodia, *The Journal of Peasant Studies*, 2024.

communal land titling process aimed at strengthening IP land tenure.<sup>475</sup> Nevertheless, IFC did not require its clients to align their ESMS and practices with GIIP and relevant national law to address these risks, nor establish related monitoring requirements.

#### **4.4.2 IFC’s actions during supervision of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA**

In its supervision of these investments, IFC regularly received information regarding client and sub-client compliance with the Exclusion List.

##### *4.4.2.1 Supervision of IFC clients regarding impacts on Indigenous Peoples*

As described earlier, financial institutions in Cambodia, including IFC clients and sub-clients, often accept as collateral soft land titles that overlap with IP communal land without the community’s consent. All of CAO’s IP complainants in this case who used land as collateral were from Indigenous communities with legally recognized ICLTs. They used their soft land titles as collateral, which the IFC client lenders accepted without the consent of the community. This practice risks undermining the integrity of communal land and creating intra-community conflicts, and is prohibited under national regulations. Nevertheless, the heavy reliance on land as collateral in Cambodian microfinance, combined with the lack of alternative financial products, can incentivize Indigenous borrowers to use communal land as collateral to maintain access to credit (see section 4.2.2).

Despite these circumstances, CAO found no evidence that IFC provided advice on, or monitored, efforts by its BFI clients in majority-IP areas to adapt services and products to avoid harm. During its site visits and interviews with local branch staff, particularly in regions with a majority-IP population, none of the IFC clients and sub-clients provided CAO with information or materials in IP languages. While some BFI staff in these areas are IP and speak the local languages, this does not ensure a solution to the communication obstacles on every occasion. During interviews with borrowers, CAO learned of at least three complainants who had difficulty understanding the terms and policies of their loans due to not speaking Khmer. Lack of translated materials can impede effective communication with IP borrowers, leaving them without the necessary information to make informed decisions.

Additionally, financial institutions working in majority-IP areas do not offer products that take into account IP culture and could benefit Indigenous communities, such as unsecured loans or loan products that do not require collateral but use other forms of collective securitization.<sup>476</sup> Further, CAO found no indications that IFC monitored whether its clients in these areas offered products tailored to IP culture, such as unsecured loans or collective securitization mechanisms.

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<sup>475</sup> See: World Bank Group, Land Allocation for Social and Economic Development Project III, project #P171331, p.9, <https://bit.ly/43CGnoC>

<sup>476</sup> A recent Human Rights Watch report highlights alternative financial models that enable Indigenous Peoples to access credit without using land as collateral. Examples include Community Development Financial Institutions and trust-based mechanisms like rotating savings and credit associations and solidarity lending groups. Human Rights Watch, Debt Traps: Predatory Microfinance Loans and Exploitation of Cambodia’s Indigenous Peoples, September 24, 2025, <https://bit.ly/4gSi2QZ>

Regarding IFC’s supervision of direct investments in this case in relation to Indigenous Peoples:

- Between 2019 and 2023, IFC’s monitoring of ACLEDA was based on the review of its annual E&S reports, with one site visit in November 2022.<sup>477</sup> IFC consistently considered the lender’s E&S performance satisfactory, based in part on ACLEDA’s reporting that its credit officers had ensured none of its loans were exposed to the Exclusion List. In 2019 and 2020, ACLEDA reported that the most common reason for loan rejections was because the client’s business activities involved Indigenous Peoples’ land, and that this issue was often discussed with sub-borrowers. CAO found no evidence in IFC’s records that it considered or followed up on this information with the client.
- Between 2014 and 2023, IFC monitored Amret’s performance through reviews of its annual E&S reports and a site visit in March 2017. IFC noted the FI’s self-reporting that no activities were exposed to the Exclusion List and considered Amret’s E&S performance each year to be satisfactory. Amret’s first E&S annual report, for 2014, reported against an Exclusion List that did not include the prohibition to finance activities that impinge on Indigenous land. IFC noted the absence of the exclusion related to alcohol but not the one related to Indigenous Peoples. Amret’s E&S procedures issued in 2015 included the prohibition to finance activities that impinge on Indigenous land. However, the E&S annual report template which Amret has followed in reporting to IFC since 2022 again omits this item. CAO found no evidence that IFC followed up on this omission with the client. During nine years of IFC monitoring, CAO found no record in project documents of Amret reporting or seeking advice on Indigenous Peoples issues, or of IFC following up on Amret’s application of its E&S policies in this area.
- Between 2017 and 2023, IFC monitored Hattha Bank through reviews of its annual E&S reports, where the lender reported zero exposure to Exclusion List activities during the entire monitoring period. IFC’s reviews took note of these statements without requesting any further substantiation and concluded that Hattha Bank’s E&S performance was satisfactory. CAO found no evidence in IFC’s monitoring documents that IFC and Hattha Bank ever discussed Indigenous Peoples issues.

Regarding IFC’s fund investments in this case:

- MEF’s reporting to IFC between 2009 and 2018 emphasized its investees’ adherence to the Exclusion List, which is included in loan agreements with investees, including PRASAC, Hattha Bank, and Sathapana. MEF also reported on its own exposure to activities on the Exclusion List. CAO notes that despite the large number of MFIs in which MEF invested, it consistently reported no major violations of the Exclusion List. In 2013, IFC noted that 66 of the 82 MFIs MEF had invested in confirmed that they did not provide loans for the activities on the Exclusion List. IFC recommended that fund managers continue to work with investees to ensure Exclusion List compliance and followed up to determine whether a specific MFI screened out the Exclusion List. IFC also asked fund managers to review the E&S reports/responses from their investees and follow up on any deficiencies in the MFIs’ screening of their borrowers’ activities against the Exclusion List. However, the

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<sup>477</sup> In November 2022, IFC carried out its first monitoring visit since 2011. During this visit IFC focused on reviewing the assessment of six larger loans. IFC did not review or touch upon ACLEDA’s processes for smaller loans of the application of the Exclusion List.

Indigenous Peoples issues related to the Exclusion List were not explicitly mentioned in IFC’s monitoring records.

In 2014, MEF reported to IFC that BlueOrchard verified compliance with the Exclusion List using two tools: loan file review by investment officers as part of their annual review; and the SPIRIT tool which asks whether the MFI has “an exclusion list on lending” IFC’s monitoring records that year noted few or no records of MFIs compliance with the Exclusion List and E&S matters in general, depending on the investment advisor managing each investee. In subsequent years, IFC records stated that no ESDD reports were shared by MEF, with no formal follow-up requirement from IFC. In general, IFC was satisfied that MEF verified compliance with the Exclusion List through counterparty self-reporting and on-site verification during due diligence, and that all fund managers were ensuring compliance by including the Exclusion List in legal agreements with investee microfinance institutions.

- In reporting to IFC between 2014 and 2020, MIFA took a similar approach to its reporting on the industry’s Client Protection Principles (see section 4.3.2), including investee-specific information on whether they had an Exclusion List and if it was included in the loan agreements. These investees included Amret, Hattha Bank, LOLC, and Sathapana, which consistently confirmed both commitments. An exception was Amret’s 2017 reporting to MIFA, which mentioned that E&S requirements were included in their loan agreements but without the Exclusion List attached. MIFA’s Exclusion List includes activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- In 2014, IFC noted that seven MFIs in MIFA’s portfolio lacked an Exclusion List and 15 did not include it in their loan agreements. IFC recommended that MIFA follow up with the investees, and in 2015 the number of investee companies without a formally approved Exclusion List fell to three. IFC’s 2015 monitoring concluded that BlueOrchard was compliant with IFC E&S requirements and categorized its performance as satisfactory. That same year, after a supervision site visit, IFC recommended that MIFA ensure that its investees’ Exclusion List include the elements of IFC’s Exclusion List. From 2017, MIFA reported on its investees’ percentage of loans substantially involved in prohibited activities, with the MFIs involved in this complaint consistently reporting 0% exposure through 2020. This record was noted in IFC’s E&S monitoring with no follow-up regarding this low level of exposure. IFC’s E&S monitoring in 2017 also noted that approximately 70% of MIFA’s MFI investees did not include an Exclusion List in their loan agreements. However, IFC did not address this issue in its subsequent 2018-2020 monitoring reviews. In 2021 and 2022, IFC noted that MIFA investees’ loan agreements contained an Exclusion List in line with IFC’s restricted sectors and activities, with no further details.
- Between 2018 and 2023, North Haven Thai consistently reported no exposure to the Exclusion List.<sup>478</sup> However, CAO notes that the Exclusion List included in North Haven Thai’s 2018 ESMS contains no provisions on Indigenous Peoples. IFC’s 2018 E&S supervision report, while requiring the most recent version of the ESMS, does not identify this discrepancy. IFC’s subsequent E&S reviews consistently reported the absence of

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<sup>478</sup> CAO does not have records of North Haven Thai’s E&S reporting from 2021 and 2022, nor of IFC’s monitoring in 2019.

exposure to the Exclusion List without addressing the difference between North Haven Thai’s Exclusion List and IFC’s Exclusion List.

- Between 2009 and 2021, Advans consistently reported no exposure to the Exclusion List, which included activities impinging on lands owned or claimed by Indigenous Peoples without their full documented consent. Advans’ Exclusion List provided guidance for its affiliates’ loan officers but did not include the item on Indigenous Peoples in this guidance.<sup>479</sup> Advans did not require its affiliates’ legal covenants to include compliance with the Exclusion List, but from 2015 to 2021 the FI reported that all loans were screened against the Exclusion List as part of its ESMS. There are, however, some inconsistencies in Advans’ reporting. For example, in 2010, the IFC sub-client both reported not having any exposure to the Exclusion List and informed IFC that some microbusinesses financed by Advans affiliates were sometimes involved in activities that included trade in alcoholic beverages and tobacco, which the list prohibits. IFC’s 2010 E&S monitoring did not record an inconsistency in its client’s reporting, but did note that affiliates often rejected loans due to Exclusion List items or adverse social or environmental impacts, which was why loan officers regularly visited clients to assess Exclusion List compliance. From 2016 to 2021, Advans reported to IFC that its loan officers applied the Exclusion List, conducted visits following disbursements to ensure compliance, and terminated further consideration of financing if a project involved an excluded activity. Advans also informed IFC that it provided training on Exclusion List screening to branch managers and loan officers. IFC’s E&S monitoring during these years consistently noted that all loans were screened against the Exclusion List and that Advans affiliates did not have any exposure to excluded activities, without any further consideration or details.<sup>480</sup> Potential impacts on Indigenous Peoples from Advans or its affiliates’ operations were not addressed in either Advans’ reporting or IFC’s E&S reviews.

CAO found no evidence that IFC requested information or reviewed whether the financial institutions were complying with relevant national law on Indigenous Peoples during IFC’s supervision of the 13 investments. CAO also did not find evidence that IFC reviewed or monitored the policies and practices of the financial institutions.

#### *4.4.2.2 Conclusion regarding IFC’s compliance with Sustainability Policy supervision obligations regarding impacts on Indigenous Peoples*

IFC’s supervision of the investments in this case included monitoring of Exclusion List application by its seven clients. However, CAO found little evidence that IFC provided advice or guidance to its clients on the list’s exclusion provisions related to Indigenous Peoples. Even in cases where clients reported that the IP exclusion item was a common reason for loan rejections, IFC did not request verification of how it was being applied.

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<sup>479</sup> After 2014, Advans’ reporting format changed and it stopped attaching their exclusion list in their report to IFC.

<sup>480</sup> Following the March 2017 supervision visit to Amret, IFC noted in its monitoring of Advans, that exclusion list screening in Amret is undertaken by credit officers for any loans or clients regardless of the loan amount; and justified that Advans Group does not require affiliates to include legal covenants in their loan agreements with clients regarding compliance with the Exclusion and National Laws as E&S screening is done before the creation of the loan contract, so generally activities on the Exclusion List are not financed.

Further, despite clients’ self-reporting to IFC that IP-related reasons had led to rejection of loan applications, CAO found no evidence that IFC followed up on this information or supervised its clients to ensure their activities complied with PS7 and related provisions of the Exclusion List. This is particularly noteworthy given the practice of accepting as collateral soft land titles that overlap with IP communal land, without community consent (see section 4.2.2).<sup>481</sup>

CAO also found no evidence that IFC provided advice on or monitored efforts by financial institutions working in majority-IP areas to adapt their services and products to avoid harm.

Based on the above, CAO finds that IFC did not comply with its obligations under the Sustainability Policy to ensure, through its due diligence and supervision, that its clients avoided and mitigated adverse impacts on Indigenous Peoples. In particular, IFC did not ensure that microfinance activities its clients finance do not impinge on IP lands, without communities’ full documented consent (2012 PS7, paras. 8 and 9<sup>482</sup> and IFC Exclusion List). IFC also did not ensure that its clients followed national law on the protection of Indigenous land (2012 Sustainability Policy, para. 35, PS Overview, para. 5)<sup>483</sup> and GIIP requirements related to transparency and adaptation of financial services and products to avoid harm (2012 Sustainability Policy, para. 35, PS 1, paras. 7).

#### **4.5 IFC’s compliance with its Sustainability Framework obligations regarding access to recourse to address grievances**

As explained in sections 3.7 and 4.2.3, IFC’s E&S policies require FI clients to have in place an external communications mechanism or grievance mechanism. This mechanism is required to receive, register, screen, assess, track, respond to, and act upon inquiries and complaints from the public about their operations, without retribution for raising a grievance.<sup>484</sup> IFC’s requirement is reinforced by national regulation and GIIP, which require microfinance providers in Cambodia to ensure the availability of responsive complaints mechanisms and problem resolution processes. IFC’s Sustainability Policy also states that IFC expects its clients to minimize gender-related risks from business activities and unintended gender differentiated impacts.<sup>485</sup>

##### **4.5.1 IFC’s actions during due diligence of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA**

During pre-investment due diligence, IFC reviewed the client’s grievance or external

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<sup>481</sup> OHCHR Cambodia, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People communities in the Provinces of Ratanakiri, Mondulakiri and Kratie, October 2018, p. 27, <https://bit.ly/4bSh11P> and Brook, Jack, “Land loss and debt: the bottom line for misleading microloans”, *South East Asia Globe*, May 2022, available at <https://bit.ly/44C6L0s>, and ABC and CMA joint press release on the list of prohibited collaterals, 16 August 2024. . <https://bit.ly/45flCkh>

<sup>482</sup> For the MEF investment, 2006 PS7, paras. 7 and 8.

<sup>483</sup> For the MEF investment, 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

<sup>484</sup> 2012 Sustainability Policy, para. 35; 2012 PS1, paras. 34 and 35. For the MEF investment, 2006 Sustainability Policy, para. 28 and 29, 2006 PS1, para. 23.

<sup>485</sup> 2012 Sustainability Policy, para. 13. Earlier IFC E&S policies (applicable to IFC’s investments in MEF and Advans) do not have specific requirements for managing gender-related risks.

communication mechanisms in only eight of the 13 investments covered by this complaint. For none of these investments did IFC’s review extend to thoroughly evaluating the client’s capacity to handle complaints, or the effectiveness of these mechanisms. Instead, IFC generally limited its review to verifying the existence of a mechanism or external communications system.<sup>486</sup> Exceptions included (i) IFC’s investment in North Haven Thai in 2018, where IFC required the establishment of a simple mechanism in the client’s ESAP; (ii) IFC’s ESDD in ACLEDA, which provided some details about the process implemented for the formal handling of complaints (#44882); and (iii) IFC’s 2021 investments in Hattha Bank (#45535 and #44742), where IFC required an E&S external communication mechanism as part of an upgrade to the project’s ESMS.

In the remaining five investments, IFC did not request, review, or verify the existence of a grievance mechanism at these financial institutions. IFC’s due diligence of MEF, MIFA, and Advans—done between 2004 and 2012 (#27827, #31467 and #21856)—did not include any review or request for the creation of grievance mechanisms or external communications mechanisms at the FI or sub-client level. Similarly, neither IFC’s 2014 equity investment nor its 2018 loan investment in Amret (#34748 and #41294) involved ESDD of the grievance mechanism or an external communications mechanism. Lastly, for its 2017 investment in Hattha Bank (#39167), IFC considered external communication during ESDD, but determined it a non-material E&S issue due to the microfinance nature of the company’s business. In doing so, IFC failed to consider that the client’s ESMS should follow GIIP under PS1 and comply with GIIP standards for microfinance require the availability of accessible, adapted, efficient, timely, and responsive mechanisms for complaints and problem resolution. Later that year, the National Bank of Cambodia issued a regulation mandating that all FIs operating in the country must have a complaints resolution mechanism. IFC was aware of this regulation as it supported and advised the NBC on its development (see section 4.1 above).

In general, IFC conducted limited due diligence of the grievance mechanisms provided by its FI clients and sub-clients to ensure access to redress for borrowers. In none of its due diligence did IFC examine the adequacy of the mechanisms implemented by the banks, MFIs, and funds. There was little to no review of how the mechanisms work, how they are implemented, or their effectiveness in managing complaints from borrowers.

#### **4.5.2 IFC’s actions during supervision of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA**

IFC’s supervision of the grievance and communications mechanisms operated by the seven FI clients over 20 years of investment are detailed below.

In 2019 and 2020, ACLEDA reported on its grievance mechanism through its annual E&S reports, stating that its external communication mechanism provided access and contact points for customer complaints and inquiries. During this period, ACLEDA received thousands of complaints and inquiries, which were broadly categorized into issues mostly related to banking systems and some general mentions of customer service, data privacy, and fee explanations. IFC’s reviews of

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<sup>486</sup> For its 2019 and 2020 investments in Hattha Bank, ACLEDA, and Amret, while there is evidence that grievance management was part of the agenda during the appraisal mission in ACLEDA, the ESDD outcomes only indicated the channels of communication with a link to the client’s website for external stakeholders. IFC provided no further details or evidence that it reviewed the adequacy of the respective client processes (ACLEDA #42480, Amret #44231 and Hattha Bank #44211)

those reports noted that the external communication mechanisms were satisfactory and maintained with no change from the previous years. In 2021, ACLEDA’s E&S report did not include information regarding its external communication mechanism, but IFC’s review noted that satisfactory communication channels had been established and maintained for receiving external comments. These channels included a 24/7 call center, a designated email, and the company website. IFC’s reviews for 2022 and 2023 again found the mechanism satisfactory without further assessment of its processes or effectiveness.<sup>487</sup>

Between 2014 and 2022, IFC received reports about Amret’s grievance mechanism both from Amret and through Advans’ Annual Environmental Performance Reports (AEPR) (between 2009 and 2021), and MIFA’s AEPRs (between 2014 and 2021).

- From 2009 to 2014, Advans did not report on its own or Amret’s grievance mechanism<sup>488</sup> and IFC did not evaluate or reference external stakeholder communication by Advans’ or its affiliate, Amret, during its E&S monitoring.<sup>489</sup>
- In 2014, Amret began directly reporting to IFC, and from 2014 to 2018, reported receiving no grievances. However, IFC’s monitoring of the Advans and MIFA investments revealed that Amret received some complaints in 2014, mostly related to customer services and staff treatment of clients (reported to MIFA).<sup>490</sup> In 2015, Amret received thousands of complaints and inquiries, and in 2016 and 2017 under 100 complaints (reported to Advans), which raised issues relevant to potential adverse impacts of lending and collection practices such as staff treatment and request for loan information.<sup>491</sup> Despite these relevant complaints, IFC did not assess Amret’s stakeholder communications until 2018 when it considered these to be satisfactory and stated that there were no concerns given the nature of the client.<sup>492</sup>
- Between 2018 and 2021, Advans reported that Amret received thousands of inquiries and complaints, primarily concerning collateral, interest rate, penalty fees, employee behavior, delay of loan repayments, customer service, and loans paid off before maturity. Amret also directly reported to IFC complaints in 2020 and 2021 about issues such as delays in loan repayments, poor services, and delays to withdraw collateral. IFC’s monitoring records for Advans, MIFA, and Amret did not include comments on Amret’s grievance handling, or the

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<sup>487</sup> CAO does not have records of ACLEDA’s E&S reporting from 2022 to 2023

<sup>488</sup> While the Advans investment was approved in 2004, CAO does not have records of IFC’s supervision prior to 2009.

<sup>489</sup> From 2009 to 2011, Advans did not report having a grievance mechanism. Between 2012 and 2014, Advans reported ongoing efforts to strengthen or build mechanisms in several affiliates, but did not mention efforts in Cambodia. In 2017 Advans’ AEPR for the first time reported that it had a public email and enquiry form on its website, did not receive any complaints that year.

<sup>490</sup> This information included in MIFA’s 2014 annual E&S report did not trigger any follow-up regarding Amret by IFC. CAO however notes that in its review, IFC noticed a high number of complaints in several of MIFA’s investee MFIs and followed up with MIFA.

<sup>491</sup> Between 2014 and 2016, MIFA reported that Amret had a complaint handling procedure, a complaint handling officer and multiple complaints channels (suggestion boxes at branch level, call center, direct verbal communication, Facebook, and email) for borrowers to raise their complaints. IFC’s reviews of MIFA’s AEPRs during that time, which included information about Amret rated these mechanisms as "satisfactory" with no further comments regarding Amret, or any other sub-client MIFA had reported on.

<sup>492</sup> In 2017, MIFA did not report on the number of complaints received by Amret. IFC’s monitoring between 2017 and 2019 all rated these mechanisms as "satisfactory".

discrepancies of complaints received between the Amret, Advans, and MIFA reporting.<sup>493</sup> IFC did consider the mechanism satisfactory through its monitoring of MIFA, but provided no evidence of how it reached this conclusion, or requests for further information. Instead, IFC commented solely on the internal communication process between the investee and the fund.<sup>494</sup>

- Between 2022 and 2023, Amret for the first time included a description of its external communication mechanism and process in its E&S report to IFC, reporting complaints in 2022 and 2023, which were mostly related to banking issues. IFC’s E&S monitoring records for Amret during these two years did not include information about the FI’s grievance mechanism or any consideration of the reported number of complaints.

Between 2017 and 2021, Hattha Bank reported on its grievance mechanism through its annual E&S reports to IFC stating that there were no formal or official complaints, but that it sometimes received verbal complaints.<sup>495</sup> IFC’s monitoring records stated that the bank’s grievance mechanism was satisfactory, and up to 2020 IFC considered external communication a non-material E&S issue for the client given the nature of its business focus on microfinance.<sup>496</sup> After the ESAP attached to IFC’s 2021 loan required Hattha Bank to implement an external communication mechanism (see ESSD section above), IFC’s 2022 and 2023 monitoring records continued to state that the bank’s external stakeholder communication was satisfactory. At the same time, IFC noted that Hattha Bank had not reported on the external stakeholder communication in its E&S report. IFC subsequently documented no information on whether the new grievance mechanism had been implemented as required by the ESAP.<sup>497</sup>

IFC’s monitoring of the MEF and MIFA funds provides further information on the implementation of grievance mechanisms at the sub-clients LOLC, Sathapana, and PRASAC.

MIFA reported to IFC on the grievance mechanisms of its sub-clients (Amret, LOLC, and Sathapana) providing some details about the complaint handling process of its investees as well as the number of complaints received for several years, as summarized below:

- Starting in 2015, MIFA reported on LOLC’s grievance mechanism which had a dedicated unit responsible for handling complaints submitted through a call center and for circulating and escalating the resolution. MIFA reported that LOLC received a low number of complaints (50 or below) in 2017 and in 2020, related to loan rejection and other issues.<sup>498</sup>

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<sup>493</sup> During this same period, MIFA reported that: in 2020 Amret received 203 complaints related to account balance, branch comfort, disbursement process, product information, staff behavior, including 12 complaints related to collection practices; and in 2021 Amret’s complaints handling was following best practice with no further details.

<sup>494</sup> IFC’s monitoring of Advans during that period only described the general mechanisms and main subjects of complaints for the Group and its affiliates globally, without specific comments on Amret’s mechanism or the number of complaints received by Amret. CAO does not have records of IFC’s monitoring of Advans in 2022.

<sup>495</sup> CAO notes that between 2017 and 2020, while not part of this investigation, MIFA had exposure to Hattha Bank. Consequently, MIFA’s AEPRs to IFC included information regarding Hattha Bank’s grievance mechanism. These reports reveal inconsistencies with Hattha Bank’s own reporting to IFC during that period, with no evidence that IFC identified these discrepancies. In 2017, MIFA reported that Hattha Bank received 20 complaints related to loans, savings, and mobile banking. In 2020, MIFA reported that Hattha Bank received 36 complaints related to collection practices.

<sup>496</sup> In 2021, IFC’s monitoring did not mention the external communication as a non-material E&S issue.

<sup>497</sup> CAO does not have records of Hattha Bank’s E&S reporting from 2022 and 2023.

<sup>498</sup> CAO does not have records of MIFA’s E&S reporting from 2022 and 2023, nor of IFC’s monitoring in 2023.

- In 2020, MIFA reported for the first time on Sathapana Bank which had customer feedback boxes at all branches and a call center to receive complaints. During the year, Sathapana received thousands of complaints related to loans, cash management, card services, ATM, digital banking, and customer service.
- IFC’s monitoring of MIFA between 2015 and 2022 rated these mechanisms as satisfactory with no further comments regarding LOLC or Sathapana, or any other sub-client. IFC records provide no evidence that it considered the details provided by MIFA with comments limited to the internal communication process between investee and fund.

Unlike MIFA, MEF did not provide detailed reporting on grievance handling by IFC’s sub-clients (Amret, Hattha Bank, LOLC, and PRASAC) nor the number of complaints they received. Between 2010 and 2015, MEF reported its portfolio’s adherence to the Client Protection Principles, which included implementing mechanisms for redress of grievances on the basis of sub-client self-reporting. From 2016, MEF provided MFI-specific ratings of 1-5 for complaint resolution, but without further details on processes, number of complaints received, issues raised or how they were resolved.<sup>499</sup> IFC’s monitoring reports between 2009 and 2013 did not provide any evaluation of these ratings, and between 2014 and 2021 IFC rated the grievance mechanisms satisfactory.<sup>500</sup> Since MEF did not provide detailed reporting on its investees, it did not provide IFC with information about PRASAC. However, MIFA confirmed to IFC that PRASAC had a mechanism in place to handle customer complaints and trained staff to deal with them since at least 2015, and had received hundreds of complaints in 2020.

Lastly, regarding North Haven Thai, IFC required the client to establish an external stakeholder communication mechanism at fund level as part of the E&S Action Plan for the project. The client’s first E&S annual report, in 2018, stated only that it had a mechanism in place to receive and respond to public complaints. IFC’s 2018 E&S supervision records considered this information complete and sufficient while at the same time noting the lack of additional details. In 2022, four years later, IFC indicated that the external communication mechanism was pending and in 2023 IFC considered implementation of the complaint mechanism completed.<sup>501</sup> In 2020 and 2023, IFC’s E&S supervision activity reported that North Haven Thai had received no E&S-related complaints, with no further information provided on the fund’s grievance mechanism. The 2023 report included information on ACLEDA but did not address the grievance mechanism or complaints received.

In response to allegations of threats and reprisals made by microfinance borrowers in their 2022 complaint to CAO, IFC started engaging and training some clients and sub-clients on preventing and addressing the risk of reprisals. In November 2022, IFC conducted a 72-minute virtual training session with senior and middle management from Amret, Hattha Bank, and PRASAC. IFC also developed a tip-sheet for clients providing microfinance in Cambodia on addressing reprisal concerns, which focused on developing a zero-tolerance statement on retaliation and including

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<sup>499</sup>In 2016 and 2017, Amret, LOLC, PRASAC, Sathapana and Hattha Bank were always marked 5, the highest score

<sup>500</sup> CAO does not have records of MEF’s E&S reporting after 2018, nor of IFC’s monitoring in 2022 and 2023.

<sup>501</sup> Upon request, North Haven Thai provided CAO with a link to its external communications mechanism: an integrity hotline on the general Morgan Stanley website that does not mention North Haven Thai: <https://bit.ly/417hSa4> CAO does not have records of North Haven Thai’s E&S reporting from 2021 and 2022, nor of IFC’s monitoring in 2019

anti-retaliation in the company code of conduct.<sup>502</sup> Additionally, IFC collaborated with the Cambodian Institute of Banking and Finance to incorporate a module on managing the risk of reprisals in its responsible lending course, developed with IFC’s support in 2023.

While positive, these initiatives were limited in depth and CAO found no evidence that IFC integrated these training elements into E&S monitoring of its clients and sub-clients, including for Amret and Hattha Bank, which had received the training. For the other clients in this case, ACLEDA, MEF, MIFA, Advans, and North Haven Thai, CAO found no evidence that IFC provided any advice, guidance or training on preventing threats and reprisals in the context of grievance handling.

#### **4.5.3 Conclusions regarding IFC’s compliance with its Sustainability Policy related to access to recourse**

The FIs involved in the 13 projects operate grievance mechanisms and report the number of grievances and issues raised to IFC. However, CAO’s review found no evidence that, during due diligence, IFC assessed the adequacy, functioning and efficiency of these mechanisms. Similarly, during supervision, IFC’s monitoring of grievance mechanisms appears to have been largely limited to verifying their existence, without examining their functioning or adequacy.

IFC did not follow up when clients reported surprisingly low numbers of complaints for a financial institution, or when there were inconsistencies in the reporting IFC received. For example, IFC supervision records do not address the absence of complaints reported by Amret for over five years (between 2014-2020), nor do they reconcile the differing complaint figures reported by Advans, MIFA, and Amret over the same years. IFC rated Hattha Bank’s external communications mechanism as satisfactory for three years (2017-2020) only to later require Hattha Bank to implement such a mechanism as part of the ESAP attached to its 2021 loan, raising the question of whether such a mechanism existed prior to the 2021 loan. While MIFA’s reporting to IFC was detailed, including information about the process and number of complaints, IFC’s monitoring of MIFA’s funds was narrowly focused on verifying that MIFA reported on its mechanism without substantial follow-up on the information provided or establishing whether it was effective.

CAO found no evidence that IFC, during due diligence or subsequent supervision, verified that the FIs’ grievance mechanisms were prompt, accessible, culturally appropriate and transparent, and had appropriate safeguards in place to prevent retribution, consistent with PS1.<sup>503</sup> CAO also found no evidence that IFC ensured clients implemented policies to address gender-specific risks in the management of grievance mechanisms or prevent retaliation.<sup>504</sup> From 2022 onwards, IFC provided advice and training to some clients on preventing threats and reprisals. However, CAO found no evidence that IFC required its clients and sub-clients to follow good international industry practice

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<sup>502</sup> During the training IFC shared the tip-sheet as well as IFC’s Guidance Note with its clients and sub-clients. See: IFC, IDB Invest, Good Practice Note for the Private Sector: Addressing the Risks of Retaliation Against Project Stakeholders, 2021, <https://bit.ly/42gGzt2>.

<sup>503</sup> IFC, PS1 para. 35.

<sup>504</sup> The Sustainability Policy establishes that IFC expects its clients to minimize gender-related risks from business activities and unintended gender differentiated impacts. 2012 Sustainability Policy, para. 13. As is indicated in sections 4.2.1 (2.ii) above and section 5.4 below, female borrowers face differentiated risks and impacts from aggressive collection practices, as well as regarding the form of threats or intimidations they can face as retribution from filing a complaint.

for grievance mechanisms in financial institutions. Specifically, IFC did not review whether its clients ensured borrowers had access to grievance mechanism aligned with GIIP requirements.<sup>505</sup>

Finally, CAO found no evidence that IFC sought to ensure its clients followed national legal provisions on the resolution of complaints at financial institutions,<sup>506</sup> as required by IFC’s E&S policies.<sup>507</sup>

Therefore, CAO finds that IFC did not comply with its obligations to ensure the establishment of adequate grievance mechanisms at the financial institutions to receive, respond to, and facilitate timely resolution of complaints or concerns regarding their E&S performance (2012 Sustainability Policy, para. 35, PS1 para. 34 -35).<sup>508</sup> IFC also did not seek to ensure that its clients followed national regulation regarding the resolution of complaints at financial institutions (2012 Sustainability Policy, para. 35, PS Overview, para. 5).<sup>509</sup>

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<sup>505</sup> GIIP standards recommend that complaints be submitted to individuals other than borrower’s loan or product officer and their supervisor, preferably a dedicated complaints handling unit separate from the operational business units. They also call for at least two free-of-charge and accessible complaint channels for submitting complaints along with an escalation procedure to senior management for severe complaints. See Cerise+ SPTF, Universal standards for social and environmental performance management, 2022, 4.E.1.2, and World Bank Group, Technical Note: Complaints Handling within Financial Service Providers Principles, Practices, and Regulatory Approaches June 2019, pp. 2-5 <https://bit.ly/3DscZre>

<sup>506</sup> Prakas B7-017-299 on “Resolution of Consumer Complaints” <https://bit.ly/3FGuxAB>.

<sup>507</sup> 2012 Sustainability Policy, para. 35, PS Overview, para. 5.

<sup>508</sup> For the MEF investment, 2006 Sustainability Policy, para. 28 and 29, 2006 PS1, para. 23.

<sup>509</sup> For the MEF investment: 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

## 5. CAO Assessment of Related Harm

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This section examines the Harm related to the findings of non-compliance explained in the previous section.

In relation to the complainants’ allegations, it is important to note that harmful lending and collection practices do not necessarily lead to harmful outcomes for all households. Not every defaulting borrower faces the same economic conditions, has been subject to threats, or has experienced pressures and received inappropriate demands and suggestions from FI field staff. Some borrowers are more vulnerable than others due to their economic situation, their levels of literacy—including legal or financial—limitations in language, and their awareness of their rights as debtors. These factors can influence the ultimate outcome and the degree of harm caused by harmful lending and collection practices on borrowers.

The 18 complainants and their households in this case are primarily reliant on small-scale agriculture for income or subsistence. For those who reported their income to CAO, monthly earnings from agriculture ranged from US\$17 to US\$70 per month, with some households supplementing their income through relatives working in garment factories earning up to \$200 per month. Seven complainants belong to Indigenous Peoples communities, where their primary livelihood and main source of income, prior to taking microfinance loans, came from farming activities on their land.<sup>510</sup> Some supplemented their income with daily wage labor, such as cutting grass within the community. The remaining eleven complainants also primarily relied on farming their land for their livelihood or complemented their daily work<sup>511</sup> or employment with farming for personal consumption. Complainants reported limited ability to read and write in Khmer, with at least twelve unable to speak and/or read and write the language.<sup>512</sup>

CAO’s assessment of related harm in this case is based on individual interviews with the complainants<sup>513</sup>, supplemented by publicly available information, as well as discussions with experts in NGOs, academia, and the financial industry (see section 3.6 on the investigation methodology). The personal testimony of complainants is consistent with wider experiences documented by research undertaken by the UN and other organizations, and published accounts of the social impacts of microfinance lending and over-indebtedness in Cambodia. On this basis, CAO finds that the complainants in this case experienced Harm related to IFC’s non-compliances.

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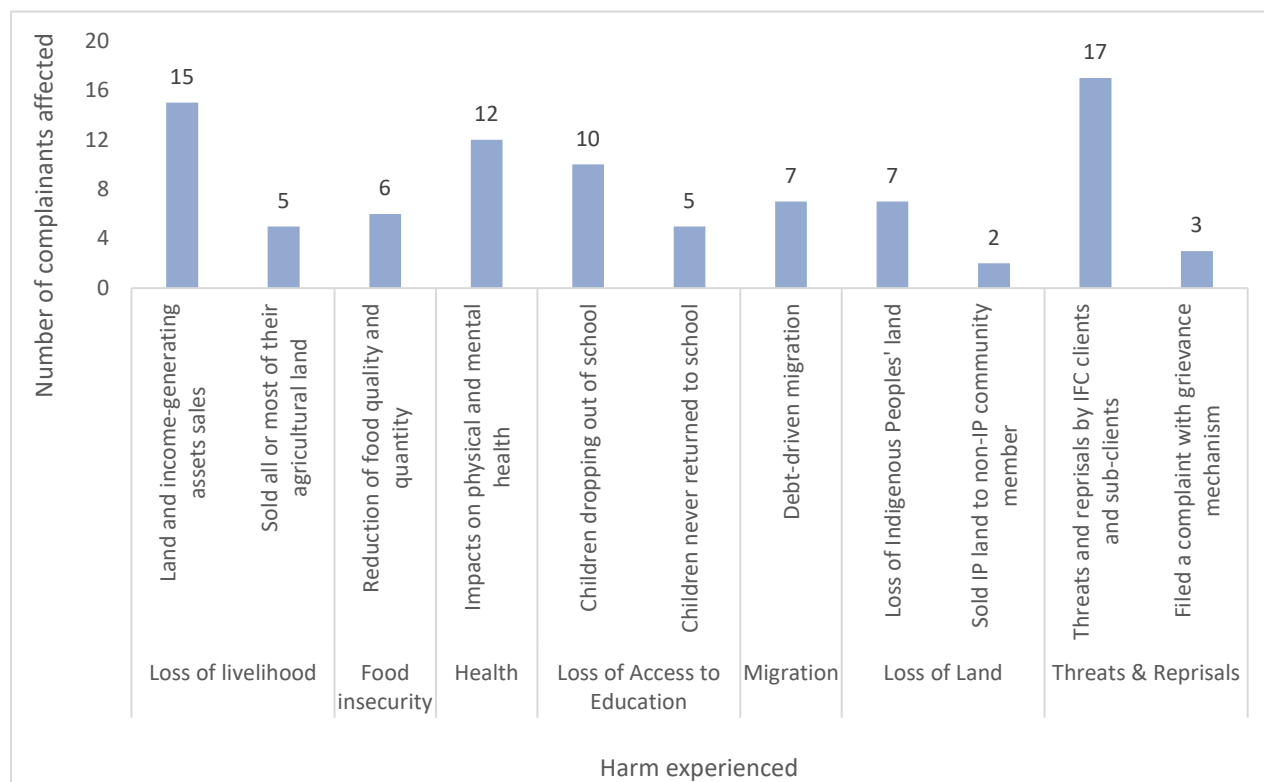
<sup>510</sup> Complainants reported earnings from agricultural activity between 70,000 – 250,000 riels/ month (US\$ 17.5 - 62.5/ month), depending on the harvest.

<sup>511</sup> Complainants reported daily wage for agricultural labor between 12,000 and 30,000 riels/day (approx. US\$ 6.5/day); 7.5 dollars and for employment in garment factory US\$200/month. One complainant’s husband used to earn US\$ 1,000 per month as a cook before the Covid-19 pandemic, but left the household in 2020.

<sup>512</sup> One complainant cannot speak, read, or write Khmer; seven complainants have no formal education; and nine complainants have some formal education (up to grade 3).

<sup>513</sup> Due to concerns about threats and reprisals, individual complainants’ harms will not be attributed to specific complainants in the following sections. The details are included in a confidential annex, which has been shared with IFC, and the clients, as appropriate and following the scope of consent given by each complainant household.

**Figure 4: Harm experienced by complainants in this case**



### 5.1 Loss of livelihood and productive assets

Complainants allege that staff of the financial institutions named in the complaint, which are financially supported by IFC, coerced them into using land titles as collateral and then forced them to sell the land prematurely to respond to collection pressures. In many cases, this land was their primary source of income and in all cases, an important asset contributing to their subsistence and livelihood. Fifteen complainants reported selling part or almost all of their land to repay their debt.<sup>514</sup> All of these sales were conducted by the borrowers themselves outside of formal collateral enforcement through court proceedings (see BFI practices in section 4.2.1),<sup>515</sup> and fourteen of them reported doing so in response to collection pressure tactics of the sort described in section 4.2.1, which are contrary to GIIP standards under PS1 requirements for vulnerable people. Pressure tactics reported to CAO included being requested by BFI officers to sell their land, being threatened with land or house confiscation with the insinuation that the bank or MFI would sell the collateral (land/houses) below market value at auction, or being threatened with referral to local authorities (village or commune chief), police, or court without explanation of the process, or

<sup>514</sup> Aside from two complainants who provided letters of ownership transfer for the CAO to review during interviews, the primary evidence of land sales consists of complainant testimonies. Given the absence of a centralized cadaster and the informal nature of land transactions in rural Cambodia, most complainants did not provide formal documentation of land ownership transfers. Complainants provided evidence to CAO of initial land ownership at the time they took out the microfinance loans.

<sup>515</sup> Cambodian law on security rights does not grant creditors the direct power to confiscate collateral with such actions only carried out by the courts. Article 334 of Cambodian Civil Code Procedures 2006.

potential consequences, such as criminal charges or imprisonment. In the case of the fifteenth complainant, while the sale of his land was not directly to repay a loan provided by an IFC client, he sold it to repay a loan taken from a non-IFC client to settle an initial loan from the IFC client,<sup>516</sup> illustrating the difficulty in quantifying the full extent of the impacts of debt-driven land loss.

As explained above, the harmful suggestions by BFI officers targeted to marginalized individuals who lacked legal and financial literacy and knowledge of their rights and options often led to Harm. In making this determination, CAO takes into account the well documented phenomenon of how the absence of formal foreclosure proceedings can obscure coercive collection pressures and public shaming practices that, combined with the borrowers’ lack of knowledge of their rights, frequently lead to distressed land sales (see section 4.2). This framing shifts the responsibility for dispossession from lending and collection practices that are not aligned with GIIP onto individual borrowers.<sup>517</sup>

While is not required by law, the common practice of banks and MFIs in Cambodia of retaining physical land title documents<sup>518</sup> increases borrowers’ fear and incentives to sell their farmland before the bank does. CAO observed that the threat of land and house repossession, along with potential sale at below-market prices, is perceived as a genuine risk among microfinance borrowers, especially those lacking a legal understanding of foreclosure procedures and rights.<sup>519</sup> This perception is reinforced when local authorities become involved in debt collection, which as described in section 4.2, was a practice reported for all IFC clients and sub-clients in this case.

The act of selling land is not inherently harmful, as the degree of harm depends on the household’s economic situation. However, of the 15 complainants who sold land to repay debt, 11 relied on farming as their primary source of income. Four of these 11 sold all or most of their agricultural land, and reported to CAO a significant detrimental impact on their livelihoods.<sup>520</sup> The remaining four complainants who sold land did not depend on it as their main source of income but farmed

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<sup>516</sup> The complainant took a loan with a non-IFC client to repay his loan with the IFC client and also sold his house to repay a first loan from the IFC client. He did not report collection pressure from the IFC client but ended up selling his land under threats of confiscation by the non-IFC client, whose loan he acquired to pay the loan with the IFC client.

<sup>517</sup> Green, Bylander 2021, p. 203; The authors explain that “microfinance debt tends to individualize a systemic social problem of over-indebtedness, thus obscuring the extent and pattern of land dispossession. Debt dispossession is often rendered invisible by local authorities, loan officers, and borrowers themselves who legitimize distress land sales through a moralizing discourse of legality and individual choice. When backed by coercive acts of public shaming, this discourse shifts the responsibility of dispossession from a system of predatory finance onto individual borrowers” (Bylander, Maryann, Phasy Res, Lacey Jacoby, Peter Bradley, and Andrea Blobel Perez. 2018. “Over-Indebtedness and Microcredit in Cambodia: Moving beyond Borrower-Centric Frames.” *Development Policy Review*; Federici, Silvia. 2014. “From Commoning to Debt: Financialization, Microcredit, and the Changing Architecture of Capital Accumulation.” *South Atlantic Quarterly* 113(2):231–44.; Fernando, Jude L., ed. 2006. *Microfinance: Perils and Prospects*. New York: Routledge.; Young, Stephen. 2010. “The ‘Moral Hazards’ of Microfinance: Restructuring Rural Credit in India.” *Antipode* 42(1):201–23.).

<sup>518</sup> While retaining the physical title documents is not contrary to industry standards (see Cerise + SPTF, *Universal Standards for Social and Environmental Performance Management*, 1.4.2.4 : “If the provider collects title documents, it returns them to the client once the loan is repaid”), CAO notes reports of delays in returning titles to borrowers despite the 2023 Standard Contract and Standard Contractual Term provisions, which set the release to occur 7 days after the loan is paid off. CAO interview with ABC, April 2, 2024

<sup>519</sup> CAO’s observations are based on interviews conducted with both complainant and non-complainant borrowers, as well as discussions held with civil society organizations (CSOs) and community representatives.

<sup>520</sup> Two of these complainants abandoned agriculture following the sale of their farmland, while the other two reported difficulties in meeting basic needs and resorting to subsistence foraging and reducing food consumption.

for self-consumption. One of them sold most of her land, which she relied on for subsistence. The households who sold most or all of their land reported feeling forced to sell their land prematurely and experiencing financial difficulties as a result of the loss of their income or source livelihood, leading to harmful coping mechanisms (see more details in section 4.2).<sup>521</sup>

In addition to land sales, six complainants reported selling, mortgaging, or pawning key income-generating assets, including cattle, tractors, and other vehicles, either to repay debts or to cope with reduced livelihoods and cover basic household expenses. These actions were driven by the undue collection pressures described in section 4.1.

The 15 complainants who lost land or other productive assets reported that this caused a decrease in their livelihoods, four having abandoned farming and transitioned to other forms of income generation. They described this change as having negatively impacted their standard of living. To further illustrate the harm the loss of land or assets has on vulnerable people, examples of the impacts on livelihood of complainants as reported to CAO include:

- A complainant who was a farmer sold 12 hectares of land to repay debts totaling USD\$20,625 to IFC clients and sub-clients, incurred between 2015 and 2021, eventually abandoning farming to take up construction work alongside his 13 year-old child, who had to be withdrawn from school. This case illustrates how debt-driven land altered the complainant's livelihood, forcing him to abandon farming and take up construction work to repay his debt, as well as withdraw his child from school, losing access to education (see more details in section 4.2).
- A complainant sold his agricultural land to repay his daughter's debt of USD \$13,000, losing his main source of income to buy food and resorting to foraging wild vegetables, fish, and frogs from a nearby stream for his food supply.
- A complainant who was a farmer who sold part of his land to repay microfinance debt and had to take up daily wage labor to cover loans totaling USD\$9,000<sup>522</sup>, reducing his farming time and forcing him to buy rice instead of producing it.

The eleven other complainants who have lost land or other income-generating assets similarly experienced a decrease or change in their livelihoods. The details are provided in a confidential annex.

These harms reported by complainants are consistent with broader studies and reports on debt-related land sales in Cambodia for the past decade. For example, in 2016, the CMA Lending Guidelines recognized that “loss of land as a result of over-indebtedness is serious and should be monitored and avoided where possible”.<sup>523</sup> The UN Special Rapporteur on the situation of human rights in Cambodia concluded in 2023 that “microloans, of \$5,000 or less, have emerged as a lure

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<sup>521</sup> Complainants who sold agricultural land reported decreased harvests and related income due to land loss. To continue farming, two resorted to renting land leading to financial burden that further undermined their livelihoods. Nine turned to daily-wage labor and four abandoned agriculture altogether.

<sup>522</sup> The complainant had a total of USD\$5,000 in loans from IFC clients/sub-clients and USD\$4,000 in loans from other BFs.

<sup>523</sup> CMA Lending Guidelines Interim Report May 2021, p.26

leading to debt and deprivation, especially given that they are tied to massive loss of land used as collateral”.<sup>524</sup> Studies have further established the link between land sales and microfinance debt and have highlighted the extent and impact of this phenomenon on households, particularly those with land-based livelihoods.<sup>525</sup>

Two quantitative studies undertaken between 2022 and 2023 commissioned by the CMA and the BMZ (German Federal Ministry for Economy Cooperation and Development), surveying in total 4,650 households, both found that roughly 6% of borrowers had sold land to repay microloan debts, indicating a national land sale rate of more than 30,000 transactions per year.<sup>526, 527</sup>

As explained in section 4.3 above, IFC did not ensure, through its due diligence and supervision, that the lending and collection practices of its clients and sub-clients had the proper safeguards to avoid vulnerable populations from losing important and income-generating assets, such as the land of households with land-based livelihoods.

To conclude, CAO finds that 15 complainants who had land-based livelihoods have suffered Harm

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<sup>524</sup> Report of the Special Rapporteur on the situation of human rights in Cambodia, Vitit Muntarbhorn to the Human Rights Council, (2023), A/HRC/54/75, para.60 available at: <https://bit.ly/3Fr4FbH>.

<sup>525</sup> Green, Bylander 2021, p. 204; Marks, Simon, Reaksme, Hul, “A way out for some, but a debt trap for others”, *Cambodia Daily*, May 2011, available at <https://bit.ly/3IN7GJl> ; Ovesen, Jan, and Ing-Britt Trankell “Symbiosis of Microcredit and Private Moneylending in Cambodia.” *Asia Pacific Journal of Anthropology* 15(2), 2014, pp.178–96., Surrusco, Matt, and Buth Kimsay, “Microloans Work for Some, Leave Many in Debt.” *Cambodia Daily*, March 20, 2017 In addition to the studies and papers individually cited below, see, among others: Bateman argues that the microfinance sector is increasingly driving the poor into landlessness, with the “gradual loss of land resulting from unrepayable microloans” being one of the “most deleterious outcomes associated with the rise of the microfinance model in Cambodia”. Bateman, Milford “The Rise of Cambodia’s Microcredit Sector: An Unfolding Calamity”, *Globalisation at the Crossroads, Rethinking Inequalities and Boundaries*, EADI NORDIC, 2017, (hereinafter Bateman, 2017), pp. 14, 16 . See also, among many others: Rido, Thath, “Microfinance in Cambodia: Development, Challenges, and Prospects”, *MPRA Papers*, 2018, pp. 10-11; Surrusco, Matt, Kimsay, Buth, “Microloans work for some, leave many in debt”, *Cambodia Daily*, March 2017, available at <https://bit.ly/42qN8J9>; Licadho 2023, survey of 717 households that have held formal MFI/bank loans across all districts in Kampong Speu province

<sup>526</sup> MCRIL, *An impact assessment of microfinance in Cambodia*, 2023, (hereinafter MCRIL-CMA Report)..The report commissioned by the CMA conducted a survey of 3,262 households spread over ten provinces, p.viii; Bliss Report, p.82 surveying 1,388 households. Additional surveys for a 2022 academic report found that 15% of households had sold agricultural land in the last ten years, of which 31% did so to repay loans. Guermond, V, Parsons, L., Ly Vouch, L., Brickell, K., Michiels, S., Fay, G., Bateman, M., Zanello, G., Natarajan, N., Iskander, D., and Picchioni, F. (2022). *Microfinance, Over-indebtedness and Climate Adaptation: New Evidence from Rural Cambodia*. Royal Holloway, University of London, (hereinafter Guermond et al., 2022) p. 53, surveying 621 households complemented by 1220 individual questionnaires.

<sup>527</sup> Broader studies confirm that debt-related land sales have significant impacts on household farming and rural livelihoods in Cambodia. The National Institute of Statistics reported that one million households stopped farming or reduced their farmland between 2017 and 2019/2020, with women landowners disproportionately affected. The Coalition of Cambodian Farmer Community attributed much of this to farmers selling land for emergency cash amid the escalating debt crisis. Research also shows that debt pressure is driving changes in agricultural practices, including intensified production that leads to land exhaustion, groundwater depletion, and greater use of harmful pesticides. In some cases, rural borrowers have resorted to clearing forests and expanding landholdings to access more fertile soils. See: National Institute of Statistics of the Ministry of Planning, *Report of Cambodia Socio-Economic Survey 2017*, available at: <https://bit.ly/3LXJlod>; National Institute of Statistics of the Ministry of Planning, *Report of Cambodia Socio-Economic Survey 2019/20*, available at: <https://bit.ly/3NMoYIS>; Techseng, Tran, Dickison, Michael, “Land Loss, Debt Rise Record in Latest Socio-Economic Survey”, *VOD*, February 2021, available at <https://bit.ly/41alrAZ>; Phoeurk Raksme et al., *Personal and Household’s Debt in Chhaeb, Kulen Promptep, Prey Preah Rokha Wildlife Sanctuaries, Preah Vihear Province*, 2022, p.5; Emiel de Lange, *Understanding Management of Community Zones in the Northern Plains*, 2022.

through the loss of part or all of their lands or other income-generating assets.

## 5.2 Food insecurity, and impacts on health, education and family cohesion

As their income and livelihood declined, complainants reported resorting to various coping mechanisms: (1) eating less or lower quality food, (2) delaying medical treatment to reduce expenses and other impacts on physical and mental health, (3) taking children out of school to help repay debts, and (4) migrating in search of work, leading to impacts on their families. These social impacts stemmed from the loss of land or assets affecting their livelihood. However, even in cases where no land was lost, complainants reported experiencing these impacts due to overwhelming debt and collection pressure from BFIs described above, in contravention of GIIP standards required under PS1.

### a) Food insecurity

Six complainants reported reducing their household’s food consumption, particularly meat, as a means to respond to and cope with over-indebtedness or the forced premature sale of their productive land for loan repayment. The link between malnutrition and undernutrition with health issues is well established and is particularly significant for children, where mental and physical developmental delays are a considerable concern in Cambodia.<sup>528</sup> On this basis, an alteration of diet that risks or results in poor nutrition or malnutrition is an adverse impact and constitutes Harm.

### b) Impacts on children’s education

Ten complainants reported removing their children, aged 13 to 17, from school due to unaffordable costs or the need for their children to work to help repay loans. The children were employed on rubber or sugar cane plantations, in maize fields, drying mangos, or working in processing factories and construction sites. Five of them did not return to school, including two 14-year olds, who were taken out of school to work on a sugarcane plantation and a construction site to help repay their parents’ microfinance debt. The child of another complainant completed a professional training after dropping out of school at the age of 13 and working for three years on a sugarcane plantation. The children of another complainant, aged 13 and 15, returned to school after leaving for two weeks to pick maize in response to an IFC sub-client staff’s suggestion and pressure to repay, but the complainant continued to struggle with education costs.

The International Labor Organization (ILO) and other sources have warned of a correlation

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<sup>528</sup> Kimty Seng, Revisiting Microcredit’s Poverty-Reducing Promise: Evidence from Cambodia, *Journal of International Development*, 2018; Res, 2021; Phasy Res, Microfinance in the Forest Frontier: Land and Livelihoods of the Bunong People in a Protected Area of Cambodia, *WCS Cambodia, KSWs REDD+*, 2024 (hereinafter Res, 2024); Iskander, D. et al., Sick of Debt: How over-indebtedness is hampering health in rural Cambodia, 2022 (hereinafter Iksander et al., 2022); Bliss Report, p.21-22 citing among others UNICEF et al. (2021): COVID-19. Socio-Economic Impact Assessment. Phnom Penh, 55f, 71; Kingdom of Cambodia, Ministry of Land Management, Urban Planning and Construction, Ministry of Agriculture, Forestry and Fisheries, Land Allocation for Social and Economic Development Project III (LASED III), Environmental and Social Management Framework, 2025, p.ix, 32 <https://bit.ly/4k9d2aS>

between child labor and the needs of poor families to repay debts.<sup>529</sup> Cambodian labor law sets the minimum working age at 15 and the minimum age for hazardous work at 18,<sup>530</sup> yet children dropping out of school and potential incidences of child labor remains a major concern in the country with 9% of children aged 5-14 working full time and 43% percent of 15-17-year-olds working in hazardous jobs.<sup>531</sup>

From a social development perspective, the loss of education has profound long-term consequences. At the personal level, it limits children’s future employment opportunities, earning potential, and ability to break cycles of poverty. It also reduces their capacity to participate fully in civic life and to make informed decisions about health, family, and finances. Educational disruption during adolescence is particularly damaging, as it coincides with critical stages of cognitive, social, and emotional development.<sup>532</sup>

### *c) Impacts on health*

In addition to food insecurity’s general impact on people’s health, one complainant reported postponing health treatments in order to save for debt repayment. A growing number of scientific studies have been published on the indirect and direct association between over-indebtedness and health<sup>533</sup> and how debtors in Cambodia often delay necessary medical treatment to avoid incurring more debt, with over-indebtedness being “associated with increased short-term health sacrifices made to repay debt, and physical, mental, and social suffering endured in the longer term”.<sup>534</sup>

Twelve complainants further reported mental health impacts, including insomnia, anxiety, depression, and loss of appetite due to debt collection pressure or long-term stress and fatigue

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<sup>529</sup> ILO, Int’l Programme on the Elimination of Child Labour (IPEC), Good Practices for Tackling Child Labour in Cambodia, 2014, p. 22, <https://bit.ly/429drl4>. U.S. Department of State, Cambodia Business Advisory on High-Risk Investments and Interactions, Press Release, 10 Nov. 2021, <https://bit.ly/41cQmfV>. Microfinance debt has also driven children to perform hazardous work in brick kilns or in the agricultural sector, such as spraying pesticides on banana plantations or otherwise being exposed to dangerous chemicals. Muyhong, Chan, Narin, Sun, Sarath, Sorn, Nachemson, Andrew, “Workers, including underage children, brave dangerous chemicals to make a living at Cambodia’s banana plantations,” *Cambodia News*, November 2021, <https://bit.ly/41ds4m4>. U.S Department of Labor, 2023 Findings on the Worst Forms of Child Labor, 2023, p.1; U.S Department of Labor, 2022 Findings on the Worst Forms of Child Labor, 2022, p. 1; Brickell K., Parsons, L., Natarajan, N., Chann, S. Blood Bricks: Untold Stories of Modern Slavery and Climate Change from Cambodia, 2018. Blomberg, M., Expose reveals child labor in Cambodian brick kilns despite crackdown, Reuters, February 2020, <https://bit.ly/422OkCO>.

<sup>530</sup> Article 177 of Labour Law. Royal Government of Cambodia (1997). Labour Law (VS/VKM/0397/01). Phnom Penh.

<sup>531</sup> U.S Department of Labor, 2023 Findings on the Worst Forms of Child Labor, 2023, p.1. In 2020, Cambodia was the worst rated State in South East Asia regarding child labor. GLOBE, Child Labor Index: Cambodia highest risk in region for underage workers, June 2020, <https://bit.ly/43K4Mco>. U.S Department of Labor, 2022 Findings on the Worst Forms of Child Labor, 2022, p. 1; Brickell K., Parsons, L., Natarajan, N., Chann, S. Blood Bricks: Untold Stories of Modern Slavery and Climate Change from Cambodia, 2018. Blomberg, M., Expose reveals child labor in Cambodian brick kilns despite crackdown, Reuters, February 2020, <https://bit.ly/422OkCO>. At the societal level, widespread school dropouts undermine human capital formation, weaken the skilled labour force, and constrain economic growth.

<sup>532</sup> See: UNESCO 2024/2025 Global Education Monitoring Report, Leadership in education: lead for learning <https://bit.ly/4o2OITx>; WBG, Learning Loss Must be Recovered to Avoid Long-term Damage to Children’s Wellbeing and Productivity, New Report Says, 2022, <https://bit.ly/4gVdRUu>;

<sup>533</sup> Östergren PO, Bodin T, Canivet C, Moghaddassi M, Vilhelmsson A. Selling one’s future: over-indebtedness and the risk of poor mental health and the role of precarious employment - results from the Scania Public Health Cohort, Sweden. *BMJ Open*. 2022 Nov 22;12(11).

<sup>534</sup> Iskander et al., 2022, p 2.

due to loan-related lack of rest. Generally, studies have shown that people in financial distress and those who struggle to repay debts are more likely to report higher anxiety and lower life satisfaction, particularly people with a high debt-to-asset ratios.<sup>535</sup> In Cambodia specifically, debt and the struggle to repay have been found to contribute to high levels of stress, anxiety, and sleeping problems among rural communities,<sup>536</sup> such as the complainants in this case. A 2022 study found that farmers in rural Cambodia often link their physical and emotional stress to the next loan installment, while emphasizing that the shame and reputational damage of having credit officers visit their houses or place of business to claim late payments needed to be avoided at all costs.<sup>537</sup>

Complainants in this case reported varied mental health impacts. While there were no instances of debt-driven suicides among the 18 complainants or their households, one complainant and a family member of another complainant did disclose to CAO that they had experienced suicidal thoughts due to their debt situation and the pressure of collection practices, necessitating family intervention. These accounts are consistent with studies which have found that debt burden and social stigma are strong social determinants associated with increased likelihood of suicide attempts.<sup>538</sup> In addition to the known experiences from other countries where microfinance debt has resulted in this type of social impact<sup>539</sup> (see section 1.1), the media has also reported on four cases of suicide or suicide attempts in Cambodia where debt was reported as a contributing factor.<sup>540</sup>

#### *d) Debt driven migration and subsequent impacts on families*

Seven complainants either migrated themselves, or had a relative do so, to seek additional work to repay their loan, with subsequent adverse impacts on their family life, education of their children and, in some cases, further financial strain and migrant related risks to working conditions and gender differentiated impacts. Two of the reported migrations are seasonal migrations to nearby districts or provinces to conduct daily wage labor, two others migrated to nearby provinces for a

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<sup>535</sup> Financial Security Program & Dyvonne Body, *The Burden of Debt on Mental and Physical Health*, Aug.2018, <https://bit.ly/3R78TYv>. Meltzer H, Bebbington P, Brugha T, Farrell M, Jenkins R. The relationship between personal debt and specific common mental disorders. *Eur J Public Health*. 2013 Feb;23(1):108-13.

<sup>536</sup> Guermond et al., 2022, pp.34-35

<sup>537</sup> Guermond et al., 2022, pp.34-35

<sup>538</sup> Naranjo DE, Glass JE, Williams EC. Persons With Debt Burden Are More Likely to Report Suicide Attempt Than Those Without: A National Study of US Adults. *J Clin Psychiatry*. 2021 Apr 6;82(3), <https://bit.ly/4itPLQu>; Rojas Y. Financial indebtedness and suicide: A 1-year follow-up study of a population registered at the Swedish Enforcement Authority. *Int J Soc Psychiatry*. 2022 Nov;68(7):1445-1453.

<sup>539</sup> See: Biswas, Soutik “India’s micro-finance suicide epidemic”, BBC News, December 2010, <https://bit.ly/41GDWza>, and UN Independent Expert Report on Private Debt and Human Rights, Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of human rights, particularly economic, social and cultural rights, 2020, A/HRC/43/45, <https://bit.ly/4huZHYJ> at p.1 and para. 33.

<sup>540</sup> Jack Brook, ‘I am afraid I will kill myself, like my husband’: spotlight on loans firms in Cambodia after Indigenous suicides, *The Guardian*, Oct.2023, <https://bit.ly/43HKT5J>. CAO notes that following these media allegations, the CMA commissioned an investigation of the suicide cases and concluded there was no evidence of a link between the incidents and microfinance loans and that the “tragedy was due to a combination of factors, including private lenders, family issues and others.” See: Thang Sinorn, CMA Stands Strong Against Suicide Accusations, *Kiripost*, Nov.2023, <https://bit.ly/3XTeGoj>. CAO requested to see the report, but such access was not provided. At their request, CAO conducted independent individual interviews with the relatives of these borrowers, who reiterated that debt had been a factor in the suicide or attempted suicides. Other media reports have also indicated debt playing a role in suicides in Cambodia, see: *The Nation*, December 2022, <https://officecao.org/45ve9fg>; and *Kiripost*, September 2023, <https://officecao.org/4lpuB70>.

year or more, and three migrated or had their relative migrate abroad (to Thailand and South Korea) to help repay their debt. Although rural out-migration has many causes, the International Organization for Migration reported that, as early as 2016, 40.6% of Cambodian migrants left the country due to financial debts.<sup>541</sup> Migration itself is not inherently harmful but can result in economic and social impacts. Migrant workers can face new costs, such as purchasing instead of producing food, leading to significant lifestyle and livelihood changes, as well as insecure working conditions.

For example, in relation to the complainants in this case, one Indigenous complainant reported that he and his family migrated to Thailand so that he and his wife could work to repay their debt of over 20 million riels (approx. USD\$5,000). They previously owned agricultural land within their community’s ICLTs – part of which they sold to repay their debt – and earned their income from sawing wood, harvesting cashew nuts, and other farming activities. They reported that in the durian and mangosteen orchard in Thailand where the couple works, most workers are also from Cambodia with 10 of the 30 employees coming from their village. Upon arrival, the couple discovered that the legal costs of entering and working legally in Thailand, as well as the cost of living, were higher than anticipated. This forced them to reduce the amount and quality of food they consumed to save money, and the couple’s children, aged 12 and seven, have been unable to attend school, causing additional anxiety. In about one year of working in Thailand, the complainant has been able to repay approximately 2,150,000 riels (approx. USD\$530) of his debt.<sup>542</sup> The family aims to return to Cambodia in 2025 to re-enroll the children in school after two years out of school and make seasonal trips to Thailand for the harvest seasons.

Four complainant households reported that female relatives migrated to work in garment factories, separating from their families and support networks, to send part of their salary to help repay their families’ debts. In the Cambodian garment industry, where 80% of workers are women under 30, precarious working conditions and gender-specific issues like pregnancy-related discrimination

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<sup>541</sup> IOM (2022), Socioeconomic Impact of Covid-19 on Migrant workers in Cambodia, Lao People 4S Republic, Myanmar and Thailand, <https://bit.ly/41RDqyg>, p. xix, 26,33; IOM, (2019). Debt and the Migrant Experience: Insights from Southeast Asia. Bangkok: International Organization for Migration. <https://bit.ly/4255NdR>. Dickson, Brett, Koenig, Andrea., “Assessment Report: Profile of Returned Cambodian Migrant Workers”, International Organization for Migration (IOM) Cambodia, 2016, p. 14. <https://bit.ly/3nGFLw> Also see: Bylander, Maryann. 2014. “Borrowing Across Borders: Migration and Microcredit in Rural Cambodia.” *Development and Change* 45 (2): 284–307;

<sup>542</sup> Multiple reports, including an IOM study from 2019, highlight the challenges faced by Cambodian migrant workers in Thailand, such as earning less than minimum wage and working in particularly exploitative sectors such as the construction sector, manufacturing, fishing and agriculture. Estimates suggest that between 20% and 33% of these migrants are undocumented, making them particularly vulnerable to human rights abuses and three times more likely to experience forced labor compared to local workers. IOM, *Assessing Potential Changes In the Migration Patterns of Cambodian Migrants and Their Impacts on Thailand and Cambodia*, 2019, p.v. ILO, *Working employment conditions in the agriculture sector in Thailand, A survey of migrants working on Thai sugarcane, rubber, oil palm and maize farms*, 2021; IOM, *From Migration to Innovation: A Returning Cambodian Female Migrant’s It Journey*, February 05, 2025, <https://bit.ly/3FEHLNX>. Ry Sochan, IOM: Cambodian migrants in Thailand relatively poor, *The Phnom Penh Post*, July 1, 2019 <https://bit.ly/3DJKWn5>; Mixed Migration Centre, *MMC Asia and Pacific 4Mi Snapshot-November 2023, Use of smugglers on the journey to Thailand among Cambodians and Laotians*, <https://bit.ly/4bSfvDz>; Winrock, RCG, *Winrock International: Cambodia STIP and Thailand CTIP, Cambodian Migrant Worker Landscape Assessment*, 2024, <https://bit.ly/4bNvtPm>, p.4.

and sexual harassment are prevalent.<sup>543</sup>

In interviews and document reviews, CAO observed that loans are often co-signed by parents, adult children, siblings, and community members as guarantors. BFIs’ practices of accounting for household members’ income into repayment capacity assessment (see section 4.2.1) have, in combination with debt-driven migration, increasingly tied rural households to often unstable urban and foreign labor markets.<sup>544</sup> This financial interdependence means that when co-signers migrate for work, their remittances become a critical source of repayment. In three of the complainants’ households, repayment difficulties arose when migrated relatives experienced job loss or salary reduction, leading to a drop in remittances. This dynamic not only exposes households to potentially volatile external labor markets but also strains social and family cohesion.<sup>545</sup>

#### e) *Impacts on family cohesion*

In many complainant households, the loss of land and decrease or changes in livelihood, due to loans without the appropriate safeguards for vulnerable people, lead to significant family strain. For example:

- One complainant, who took out approximately USD\$8,500 in loans between 2016 and 2024, reported that these successive loans and his indebtedness led to the sale of his land, agricultural tools, and house, and also contributed to his divorce and his 15-year-old child dropping out of school to migrate and work at a mango drying factory near the border with Thailand to help repay the debt.
- Another complainant, who had accumulated loans totaling USD\$27,170 from IFC clients and sub-clients between 2016 and 2024 and relied on farming as her primary source of income, sold her land to repay debt to an informal lender she had borrowed from to repay one of her loans. To help repay the debt, her husband migrated to work as a construction worker, later followed by their 14-year-old daughter who dropped out of school in grade six. After her husband lost his employment in early 2024, their family income further decreased, and her informal loan (taken to repay formal loans monthly payments) increased, leading to frequent family disputes. By the end of 2024, she and her husband had separated.

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<sup>543</sup> International Women’s Development Agency, Cambodia’s Worker’s Information Centre equips garment workers to fight for better conditions, June 2024, <https://bit.ly/4mLNMJV> Also see: Green, Duplicitous debtscales, 2023, p.594, Brickell, Katherine, Maryann Bylander, Nithya Natarajan, Laurie Parsons, and Brenda S. A. Yeoh. 2022. “Debt, (Un)Freedom, and Development: Lessons from Contemporary Asia.” *Geoforum* 137:151–153.; CATU et al., *Stitched Under Strain, Long-term wage loss across the Cambodian garment industry*, 2020, p.12; Human Rights Watch, ‘Work Faster or Get out’ Labor Rights Abuses in Cambodia’s Garment Industry, March 2015, <https://bit.ly/3TmAG8t>.

<sup>544</sup> W.Nathan Green, Duplicitous debtscales: Unveiling social impact investment for microfinance, EPA: Economy and Space, 55(3), 2023, p.594 (hereinafter Green, Duplicitous debtscales, 2023); A 2019 IOM survey of 900 Cambodian migrants in Thailand, found that over 90 per cent of respondents said that their remittances were important to improve their family’s living condition or the main income of their families, IOM, *Assessing Potential Changes In the Migration Patterns of Cambodian Migrants and Their Impacts on Thailand and Cambodia*, 2019, p.42, also see p.4.

<sup>545</sup> Abby Seiff and Sokummono Khan, Small loans in Cambodia drown the poor and buoy the rich, *The Dial*, May 30, 2023, <https://bit.ly/4hwQizR>. Recent media reports have highlighted that Cambodian migrant workers returning from Thailand are facing heightened debt risks due to job losses linked to regional economic pressures, including tensions along the Cambodia–Thailand border. See: Khmer Times, Can Cambodia navigate amid tariffs, border tensions and rising debt, September 2025, <https://bit.ly/4nxa0PJ>; The Guardian, ‘There’s no work now, just debt’: Cambodian garment workers face precarious future as US tariffs loom, July 31, 2025, <https://bit.ly/46JUEQN>; Khmer Times, PM urges banks, MFIs to ease debt burden of returning workers, June 16, 2025, <https://bit.ly/46JUEQN>; <https://bit.ly/3lqeFUE>

- Further examples of such impacts can be found in a confidential annex.

The harms experienced by the complainants from the coping mechanisms they have employed to address their oversized debt are consistent with the recognized social risks associated with microfinance in Cambodia. As early as 2013, a study commissioned by BlueOrchard, Incofin, and OikoCredit identified the most common coping strategies used by microfinance borrowers. The study found that the most common sacrifice was reducing the quality (48%) or quantity (44%) of food, and that over a quarter (27%) managed repayment pressure by sending a family member to find work outside the village, 25% depleted their savings in 12 months to cover loan repayments, and 23% took out a new loan to repay existing ones. Other sacrifices made by fewer borrowers included working more than 10 hours a day, postponing medical expenses, selling or pawning assets, and removing children from school.<sup>546</sup> Such measures were corroborated by several later studies,<sup>547</sup> most recently the 2024 60decibels survey, in which 24% of the borrowers surveyed had reduced food consumption to make repayments.

To conclude, CAO finds that the harm experienced by the complainants through the coping mechanisms they employ due to loss, decrease or change in their livelihood due to overwhelming debt and collection pressure from BFIs, includes food insecurity, impacts on physical and mental health, impacts on the education of children, all of which in turn affect household and family cohesion and relationships. Specifically, six complainants have suffered food insecurity; twelve complainants or their families have experienced impacts on physical and mental health; ten withdrew their children’s from school so that they could work to help repay debt; two households experienced divorce or partner separation due to debt-related tensions; and seven have had to migrate internally or externally to repay debt, which caused additional strains on their families due to family separation, additional expenses and, in some cases, unsafe and unstable working conditions.

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<sup>546</sup> Dattet Liv. Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas, Cambodia Institute of Development Study, March 2013, p. 52 (commissioned by BlueOrchard, Incofin and OikoCredit). The report also mentions that only 6% of all borrowers surveyed considered their sacrifices unacceptable as they impacted his/her living standards.

<sup>547</sup> According to the 2017 Microfinance Centre (MFC) study 48 percent of borrowers reduced food quality in 2012, 35 percent in 2017, while 44 percent reduced food quantity in 2012 and 29 percent in 2017. The 2022 Bliss Report found that 36.6 percent had restricted their consumption (particularly of food purchases) to make repayments. Microfinance Centre (MFC), Good Return, CBC, Over-Indebtedness Study Cambodia II: Final Report, October 2017, pp. 49-50. Bliss Report, pp. 45 and 76. See also, Green, Nathan W., Bylander, Maryann, "The Exclusionary Power of Microfinance: Over-Indebtedness and Land Dispossession in Cambodia", *Sociology of Development*, Vol.7.2, 2021, pp. 202 and 211 (hereinafter Green, Bylander, 2021) ; In 2023, Licadho and Equitable Cambodia, released a report based on a survey of 717 households in Kampong Speu province, which is about 50 kilometers from Phnom Penh, which found "Widespread over-indebtedness has led to significant numbers of serious human rights abuses," the study said it found 6.1% of households had sold land to repay a debt, while about 3% of households had a child drop out of school specifically due to a loan, often to start working to help repayment" LICADHO, Equitable Cambodia, Debt Threats, A quantitative Study of Microloan Borrowers in Cambodia Kampong Speu Province, 2023, <https://bit.ly/41MHhgb> (hereinafter LICADHO, 2023); Phasy Res, Microfinance in times of Covid-19, Consumer Protection and the Loan Restructuring Process in Cambodia, 2021 (hereinafter Res, 2021), <https://bit.ly/4iLFoap>, noted that "reduction of household food consumption" was a primary strategy by which debt-distressed families repaid their loans.

### 5.3 Impacts on Indigenous Peoples

Seven complainants in this case identify as ethnic Kreung, a government-recognized Indigenous Peoples in Cambodia. They allege that, in addition to the harms identified above in section 5.2, the financial institutions involved in this case accepted *soft titles* within Indigenous Peoples’ (IP) land as collateral and later coerced them to sell their individual land plots within this community land. Sometimes the land is sold to non-community members, which violates Indigenous communities’ rights, cultures, traditions, and livelihoods.

All of the seven IP complainants in this case reported that they sold a piece of land overlapping with ICLTs to directly or indirectly repay debts to IFC clients and sub-clients. Two of them sold it to non-community members without the community’s consent. As described above (section 4.2.2), lenders’ reliance on land collateral and the lack of products that do not require collateral can lead to loss of Indigenous Peoples’ land, undermining the ICLTs process and the traditional collective land ownership by IP communities, contributing to intra-community conflicts, and adversely affecting cultural practices intrinsic to Indigenous communities. Indigenous Peoples in Cambodia are particularly vulnerable to land title losses because their livelihoods are land-based.<sup>548</sup> In addition to the impacts on their livelihood (see section 5.1), the loss of Indigenous land not only harms individual IP complainants but also their community as a whole, which loses part of its communal land that is tied to their identity, culture, and access to natural resources (see section 4.2.2).<sup>549</sup>

Furthermore, among Indigenous communities and communities in the northeast of Cambodia, where IP complainants are from, the loss of land can alter matrilineal and matrilineal cultural practices, where important assets like land are transferred from mothers to daughters (matrilineal) and daughters remain in their mother’s village (matrilocal), which provide a form of economic protection and personal security for women.<sup>550</sup>

CAO further notes that for some Indigenous communities in Cambodia, including those represented in this case, land and landscape are a medium of collective memories which in turn form their identity, history, and cultural heritage.<sup>551</sup> For such communities, in addition to violating Indigenous rights, the sale of land to non-community members can also lead to loss of collective memory, identity, and cultural heritage. These impacts on Indigenous land also cause internal

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<sup>548</sup> Bliss Report, 2022

<sup>549</sup> In 2018, the UN OHCHR highlighted that securing land and resource rights is fundamental to the long-term well-being of Indigenous Peoples’ Communities in Cambodia and essential for their continued existence as distinct peoples. See: UN OHCHR, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People Communities in the Provinces of Ratanakiri, Mondulakiri and Kratie, October 2018, p. <https://bit.ly/4bSh11P>. In alignment with these principles, the World Bank Group supports the Land Allocation for Social and Economic Development (LASED) project, which aims to strengthen land tenure security and promote inclusive development for indigenous and rural communities in Cambodia. See: World Bank Group, Land Allocation for Social and Economic Development Project III, project #P171331, <https://bit.ly/43CGnoC>

<sup>550</sup> Res, Microfinance in the forest frontier, 2024, p. 39, 53. Salemink, Oscar. 1999. ‘Beyond complicity and naiveté: contextualizing the ethnography of Viet Nam’s central highlanders 1850-1990’. Ph.D. Thesis in history. University of Vrijdag. Holland, pp.136-138; Salemink, Oscar. 1999. ‘Beyond complicity and naiveté: contextualizing the ethnography of Viet Nam’s central highlanders 1850-1990’. Ph.D. Thesis in history. University of Vrijdag. Holland, p.139

<sup>551</sup> J. Padwe, *Disturbed Forests, Fragmented Memories, Jarai and Other Lives in the Cambodian Highlands*, University of Washington Press, 2020.

conflicts and divisions within communities.

One complainant who sold a plot of land within his community’s ICLTs to repay his loans to two IFC sub-clients, indicated that one of the reasons his family left their community was to avoid conflict with the head of the ICLTs, who considered the sale illegal. Another IP complainant shared that debt-driven migration has prevented her from speaking her language and participating in offering and traditional ceremonies, separating her from her community and making her feel isolated and disconnected from her ancestors.

In line with these harms experienced by the complainants, a civil society organization reported that 19 of 49 Indigenous communities that had applied for ICLTs requested withdrawing from the process because their members want to own land individually, to be able to sell and use as collateral for loans.<sup>552</sup> A 2024 report found that 20 of 93 households in one ICLT area had sold a piece of land to other community members to meet debt obligations.<sup>553</sup> Collateralized loans have led many Indigenous communities within ICLT recognized areas to resort to deforestation to access more land to repay loans, generating additional and unforeseen environmental impacts.<sup>554</sup>

Given that Indigenous Communal Land Titles (ICLTs) are established to “protect collective ownership” and “preserve the identity, culture, [...] custom and tradition of each indigenous community”, CAO considers that the sale of communal land to non-community members without the community’s consent undermines these objectives and affect the broader Indigenous community.<sup>555</sup>

To conclude, CAO finds that the seven Indigenous complainants experienced Harm through the loss of their communal land. In two cases, the sale of communal land to non-community members without the community’s consent impacted their community with indications of subsequent Harm and potential Harm to their identity and culture.

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<sup>552</sup> Consultation meeting with CSOs in Ratanakiri on March 23, 2024.

<sup>553</sup> Res, 2024, pp. 43, 44, 48.

<sup>554</sup> De Lange, Emiel, Raj, Sushil Raj, and Yun Mane, Indigenous land rights are key to conservation in Cambodia (commentary), *Mongabay*, December 2023, <https://bit.ly/4kRGaob>.

<sup>555</sup> Sub-decree on Procedures of registration of land of Indigenous communities, June 09, 2009, No.83 ANK, BK <https://bit.ly/3lrHZK9>, Art. 2. In 2018, the UN OHCHR highlighted that securing land and resource rights is fundamental to the long-term well-being of Indigenous Peoples’ Communities in Cambodia and essential for their continued existence as distinct peoples. See: UN OHCHR, Assessment of the Credit Opportunities for Indigenous Communities in Cambodia Holding a Collective Land Title, Indigenous People Communities in the Provinces of Ratanakiri, Mondulakiri and Kratie, October 2018, p. <https://bit.ly/4bShl1P>. In alignment with these principles, the World Bank Group supports the Land Allocation for Social and Economic Development (LASED) project, which aims to strengthen land tenure security and promote inclusive development through ICLT for indigenous and rural communities in Cambodia. See: World Bank Group, Land Allocation for Social and Economic Development Project III, project #P171331, <https://bit.ly/43CGnoC>.

## 5.4 Fear and instances of threats and reprisals

Based on its investigation, CAO notes the presence of a pervasive fear that affects borrower behavior in relation to debt repayment in Cambodia. This fear was evident in the reports provided to CAO by three complainants who were reluctant to request loan restructuring or disclose their financial difficulties with BFIs, or who adopted harmful coping mechanisms as described above.

This fear must be considered in the context of the particular vulnerabilities of the affected populations, many of whom have limited knowledge of their rights and limited understanding of the legal and financial systems. Most complainants have strong fears about the potential actions that lenders, including IFC clients and sub-clients, might take in the event of default. This results in part from the direct interactions with credit officers and the pressure they report experiencing from them. The fear also results in part from complainants’ observations of how other families who have disclosed repayment difficulties to lenders experience pressure and harassment.

All but one complainant reported being threatened by IFC clients and sub-clients with actions such as being taken to local authorities, police, or court, without any explanation of what such actions would entail, or with threats of land or house confiscation and selling at below-market prices. The single complainant, who did not report direct threats, nevertheless, expressed fear that her properties might be confiscated, having observed a neighbor sell land to repay and having seen officers demand that borrowers sell property to repay loans. To avoid this, she resorted to taking additional loans to repay her debts on time, relying on her children’s income. Despite this, she struggled to repay a USD\$63,750 loan that she had accrued over the years through repeated refinancing and subsequently larger loans. CAO also notes gender differentiated impacts, with three female complainants reporting the prolonged presence of BFI officers in their homes while they were alone. Although these visits do not necessarily target female borrowers, the fact that only women reported the practice suggests that it may impact them differently and may have been perceived as an additional threat. This underscores gaps in IFC’s oversight of its clients’ collection practices, particularly the lack of safeguards to mitigate gender-related risks, as well as the gender dynamics between male officers and female borrowers, which can increase fear and pressure on female borrowers or female family members of borrowers.

CAO was informed by complainants, civil society organizations, and social academics that fear leads borrowers in many cases to make harmful choices instead of approaching their lenders when they face repayment challenges. Many microfinance borrowers in Cambodia are also unaware of lenders’ grievance mechanisms.<sup>556</sup> Complainants who have tried to access them told CAO that the experience has often become a further source of threats and harassment regarding their financial difficulties.

Only three complainants approached the grievance mechanisms available, and all did so directly through the NBC mechanism, due to lack of trust in the IFC clients and sub-clients’ mechanisms and with support and guidance from NGOs. Despite this, two of them later experienced threats or

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<sup>556</sup> The Bliss Report found that 27.5% of the 862 borrowers reported not being informed about the complaint mechanism. Bliss Report, p.69

reprimands from BFI staff following their complaints. As explained in section 4.2.3, in many cases the grievance resolution process has been used to intimidate, pressure, and discredit complainants instead of acting as a trusted avenue for conflict resolution. For example:

- One CAO complainant submitted a complaint with the National Bank of Cambodia’s grievance mechanism, which allegedly did not respond. Soon after, credit officers from one of the lenders involved began visiting her family daily, and in some instances staying in her house for several hours, to pressure her to put a sign in front of their house. After the complainant complied by putting up a “for sale” sign, the visits continued with the credit officers further pressuring the complainant to take her children out of school, to sell pieces of land and advising to who and how they should do so, in order to repay the loan. The borrower indicated that when she told them she wanted to wait for a response from the NBC before further actions, the credit officers threatened her with judicial proceedings.
- Soon after the complaint was filed with CAO, it was reported to CAO that loan staff from some of the IFC clients and sub-clients visited communities trying to identify the individuals who submitted the complaint. In late May 2022, one complainant in the CAO case whose identity became known faced accusations from their community that their actions would jeopardize the village’s standing with microfinance institutions.

Borrowers’ fear of threats and reprisals is exacerbated by the broader country context, in which the criminal justice system has reportedly been used against individuals who speak out against economic activities that are seen to cause harm or infringe on community rights. Targets have been reported to include human rights defenders, environmentalists, journalists, political dissidents, and others perceived as opposing authorities or powerful actors (see section 4.2.3). In the context of this case, the executive director of a CSO representing the complainants in this case currently faces a criminal case for alleged incitement related to his social activism.<sup>557</sup> This criminal case moved forward while the CAO compliance team was carrying out its investigation site visit in March 2024.

CAO concludes that the fears and instances of threats and reprisals, reported by complainants, from lenders, constitute Harm.

### **Overall findings of harm**

In conclusion, CAO finds that the harms described in this section are heightened by the particular vulnerabilities of the 18 complainants and their households, whose reliance on small-scale agriculture for income or subsistence, limited literacy (including legal and financial), language barriers, and limited awareness of debtor rights increased their exposure to the adverse effects of harmful lending and collection practices. While the specific details of each harm reported directly to CAO by the complainants could not be independently verified in every case, the nature of these harms — including loss of land and productive assets, food insecurity, adverse health impacts, disruption of children’s education, migration-related family strain, threats and reprisals, and

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<sup>557</sup> CSO Statement Demanding World Bank Action on Cambodian Reprisals, 2024, <https://bit.ly/4iLONPO>; Business & Human Rights Resource Centre, Eang Vuthy – Equitable Cambodia, <https://bit.ly/4hNUU4K>

impacts on Indigenous identity and culture — is consistent with patterns documented in national and international studies, as well as reports by civil society, UN bodies, and academic research on over-indebtedness in Cambodia.

### **Harms Related to IFC’s Non-Compliance- with its Sustainability Policy**

The harms documented in this case are related to IFC’s non-compliance with its Sustainability Policy, particularly its obligations to ensure that clients identify, assess, and manage environmental and social (E&S) risks in accordance with the Performance Standards, Good International Industry Practice (GIIP), and national law. These obligations include giving special consideration to the circumstances and needs of vulnerable people, including such as those of the complainants, with low incomes, limited literacy (including legal and financial), language barriers, or restricted awareness of their rights.<sup>558</sup> The obligations also include ensuring that such groups are not disproportionately affected by project impacts.

The harms experienced by complainants, including loss of livelihood, impoverishment, food insecurity, adverse health impacts, disruption of children’s education, debt-driven migration, threats and reprisals, and cultural and social harm to Indigenous Peoples, are the types of adverse impacts that IFC’s Sustainability Policy and the Performance Standards are intended to prevent or manage. Under the Sustainability Policy, IFC is required to ensure, through both pre-investment- due diligence and ongoing supervision, that its clients have systems in place to avoid, minimize, or otherwise mitigate adverse impacts on vulnerable people.

In this case, CAO found that IFC did not:

- Adequately assess during due diligence or monitor during supervision whether FI clients’ and sub-clients’ lending and collection practices were aligned with PS1 requirements, including GIIP standards and national law,<sup>559</sup> for managing risks to vulnerable borrowers, including those with low literacy, limited language skills, and limited awareness of their rights and with PS7 requirements for avoiding and managing risks and impacts to Indigenous Peoples<sup>560</sup>.

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<sup>558</sup> Sustainability Policy (2012) para. 9 states: Central to IFC’s development mission are its efforts to carry out investment and advisory activities with the intent to “do no harm” to people and the environment, to enhance the sustainability of private sector operations and the markets they work in, and to achieve positive development outcomes. IFC is committed to ensuring that the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process, and that renewable natural resources are managed sustainably.

<sup>559</sup> IFC Performance Standard 1 (2012), *Assessment and Management of Environmental and Social Risks and Impacts*, para. 4: “The client, in coordination with other responsible government agencies and authorities, will comply with applicable laws, including those laws implementing host country obligations under international law”; para. 6: “. The Action Plan will describe the actions needed to implement the various sets of mitigation measures or corrective actions necessary to comply with the Performance Standards, as measured against the requirements of applicable laws and regulations and Good International Industry Practice (GIIP)”; para. 24: “The client will establish and maintain a process for identifying the environmental and social risks and impacts of the project. This process will... ensure compliance with applicable laws and regulations related to environmental and social matters.”

<sup>560</sup> IFC Performance Standard 1 (2012), *Assessment and Management of Environmental and Social Risks and Impacts*, para. 12: “The identification process will consider... individuals or groups that may be directly and differentially or disproportionately affected by the project because of their disadvantaged or vulnerable status”. IFC Performance Standard 7 – *Indigenous Peoples*, Para. 1: “Indigenous Peoples are particularly vulnerable if their lands and resources are transformed, encroached upon, or significantly degraded.”; para 13: “The client will identify and assess the direct and indirect impacts of the project on the social, cultural, and economic status of Indigenous Peoples.”

- Ensure that FI clients had effective, accessible, and trusted grievance mechanisms that were free from risk of retaliation.<sup>561</sup>

Taken together, the evidence supports CAO’s determination that the harms experienced by these complainants, with consequences that extend beyond individual borrowers to their households, communities, and, in the case of Indigenous Peoples, to their cultural heritage and collective rights, are related to IFC’s non-compliance in its due diligence and supervision.

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<sup>561</sup> IFC Performance Standard 1 (2012) para. 29: “The grievance mechanism should be scaled to the risks and adverse impacts of the project and be accessible to all segments of the affected communities, including vulnerable groups, and without retribution.”

## 6. Underlying Causes of Non-Compliance

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### **Adopting an approach that fails to consider social risks to and impacts on project beneficiaries**

IFC’s Sustainability Policy commits the institution to achieving positive development outcomes by ensuring, through due diligence, monitoring, and supervision, that the activities it supports are environmentally and socially sustainable and implemented in line with the Performance Standards. The Policy also requires that the costs of economic development do not fall disproportionately on poor or vulnerable people, and applies the Performance Standards to deliver on this commitment.<sup>42</sup>

IFC’s approach to identifying risk and impacts had a major blind spot: the vulnerability of a key group of affected people, which are the beneficiaries. In this case, IFC’s noncompliance stems from its not recognizing microfinance borrowers, their families, and their communities, who include farmers, Indigenous Peoples, and others whose vulnerability is linked to low literacy (including financial literacy), low income, and reliance on land-based livelihoods, as a vulnerable affected population.

### **Disconnect between sector-level leadership and project-level application**

An underlying cause of IFC’s non-compliance in this case was the gap between its extensive sector-level engagement to promote responsible finance in Cambodia and its limited application of that same knowledge, standards, and practices to the due diligence and supervision of its own microfinance investments. On one hand, IFC has been an active player in Cambodia’s microfinance sector for over two decades, supporting initiatives to address the risk of over indebtedness and strengthen responsible finance practices. Examples include its work with the National Bank of Cambodia to establish the Credit Bureau of Cambodia, its collaboration with the Cambodian Microfinance Association and the CBC to develop and promote lending guidelines, and its advisory services to strengthen financial consumer protection frameworks. These efforts reflect a clear recognition of the potential negative impacts of microfinance and a commitment to promoting good international industry practice (GIIP) at the sectoral level. On the other hand, IFC did not systematically apply this same understanding and these GIIP standards to the due diligence and supervision of its own microfinance investments. As a result, the very risks IFC was working to mitigate in the sector, such as over indebtedness, loss of productive assets, and harmful collection practices, were not consistently identified, assessed, or addressed within the projects it financed. This gap between IFC’s sector level leadership and its project level practice points to a lack of coherence and contributed to the persistence of social harms among borrowers in the investments covered by this case.

While this apparent lack of alignment led to the non-compliances documented in this report, it also reveals a larger issue: an apparent challenge in responding and adapting to changes in information about and understanding of adverse social impacts of microfinance activities at the project and portfolio levels. IFC did not systematically consider and respond to emerging information pointing to the significant social risks to a vulnerable segment of microfinance borrowers, nor did it draw from the strong body of GIIP to refine its own understanding of vulnerable groups and effective

measures to protect them in its own projects.

The result was an ongoing misalignment between an evolving body of knowledge of the social impacts and risks of microfinance and related GIIP and the way IFC undertook its E&S due diligence and supervision in the microfinance sector.

## 7. Recommendations for IFC’s Management Action Plan

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The CAO Policy provides that:

*Where CAO finds non-compliance and related Harm, CAO makes recommendations for IFC/MIGA to consider when developing a Management Action Plan (MAP). Recommendations may relate to the remediation of Project- [...] level non-compliance and related Harm, and/or steps needed to prevent future non-compliance, as relevant in the circumstances.*<sup>562</sup>

Following this provision, CAO makes the recommendations outlined below to: (a) remediate project-level non-compliances and related Harm (project-level recommendations), and (b) prevent IFC future non-compliances (systemic recommendations).

### *Special note on ongoing initiatives*

To provide context for its recommendations, CAO acknowledges that, since 2023, Cambodian government and regulatory agencies, banks, financial institutions, civil society, multilateral financial institutions, including IFC, and development partners, have jointly explored solutions to address growing concerns about the social impacts of over-indebtedness. In making its project-level recommendations, CAO has considered the following existing initiatives:

1. In November 2023, the United Nations office in Cambodia and National Bank of Cambodia (NBC) launched a Multi-Stakeholder Dialogue. As part of this dialogue, several actions have been taken (see details in **Annex A**). Particularly relevant for the recommendations made below are that: (i) the Association of Banks of Cambodia (ABC) and CMA established a Financial Consumer Centre (FCC), which launched a call center for borrowers in September 2024, with support from IFC, and (ii) IFC and other development partners,<sup>563</sup> are leading efforts to assess the feasibility and design of an independent debt counseling and mediation mechanism such as a financial ombudsman to sit under the FCC.<sup>564</sup>
2. In 2024, SPTF launched a pilot project in three villages in the Ratanakiri province to strengthen consumer empowerment for debt-stressed clients. The initiative involves implementing debt counselling services led by trained "village debt counsellors" from the

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<sup>562</sup> CAO Policy, para. 113. Similarly, paragraph 120 of the CAO Policy establishes that a compliance investigation report will make "[r]ecommendations for IFC/MIGA to consider in the development of a MAP relating to the remediation of Project- or Sub-Project-level non-compliance and related Harm, and/or steps needed to prevent future non-compliance, as relevant in the circumstances."

<sup>563</sup> FMO, Possible Sector Initiative – Cambodia, <https://bit.ly/3R7beCL>. In December 2022 a complaint was filed with the Dutch National Contact Point (NCP) for the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, regarding Oikocredit – a global social impact investor headquartered in the Netherlands – regarding its investments in Cambodia’s microfinance sector. The mediation process was closed in January 2025, and as a result Oikocredit committed to developing a framework for an independent mediation mechanism and a solidarity and relief facility, in line with international standards, including the UN Guiding Principles on Business and Human Rights. See: OECD Watch, Cambodian League for the Promotion and Defense of Human Rights et al. vs. Oikocredit, <https://bit.ly/3FvjBFR> and Oikocredit, Closing of OECD Dialogue, January 24, 2025 <https://bit.ly/3XPwDnK>.

<sup>564</sup> UN, Joint Statement Progress Update, <https://bit.ly/423yxDI>. FMO, Possible Sector Initiative – Cambodia, <https://bit.ly/3R7beCL>.

community.<sup>565</sup>

3. CMA and ABC have led training for FI CEOs and shareholders on the role of governance and client protection.<sup>566</sup> With support from NBC, they introduced a Responsible Lending certification program in 2022 for credit officers and other credit-related staff, provided by the Institute of Banking and Finance. The certification became compulsory for ABC members’ lending officers since 2023<sup>567</sup> and CMA has announced it plans to follow suit in 2025.<sup>568</sup> IFC has participated in and supported all these initiatives.

CAO has taken into account these initiatives and programs in making the recommendations below (see further details for these initiatives in Annex A).

Additionally, as required by the CAO Policy, in cases where IFC has exited from its investment, “recommendations will take into account the implications of such an IFC/MIGA Exit.”<sup>569</sup> In this case, IFC exited five of the 13 relevant investments after the complaint was filed in February 2022 due to the loan maturity and repayment.<sup>570</sup>

Nevertheless, IFC retains financial links with all but one of the 6 Cambodian BFIs through other active investments.<sup>571</sup> CAO also notes that the MEF loans provided to four of the FIs in this case reached maturity and were repaid since the start of this compliance investigation (see section 2 above). As a result, IFC does not have an active financial relationship with PRASAC at the time of this report’s completion. Nonetheless, PRASAC has been an IFC business partner with many collaborations since 2012<sup>572</sup>, and is a member of ABC with which IFC collaborates in its sector level initiatives. CAO encourages IFC to consider this broader relationship with PRASAC when deciding its project-level actions in this case, and to take into account CAO’s findings and recommendations in any future business activities with PRASAC.

Taking into account these considerations and the above findings , CAO recommends that IFC take

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<sup>565</sup> CAO notes that significant challenges in the implementation of these financial literacy programs have been reported. P. Res, Microfinance in times of Covid-19, Consumer Protection and the Loan Restructuring Process, in Cambodia, 2021; P. Res, Financial literacy training in Cambodia as a tool to form borrowers’ subjectivities, 2023, M. Bylander, P. Res, ‘If you fall, stand up again’: The moral nature of financial literacy in the Global South, *Development and Change*, 2021 . Critics have pointed out that these programs often serve to legitimize the formal banking industry – these programs being sometime led by credit officers from the banking industry - while placing the blame for over-indebtedness solely on borrowers’ lack of financial literacy. This perspective overlooks other contributing factors such as predatory lending practices and inadequate regulatory frameworks highlighted in this report. N.Green, The persistence of the moneylender: how informal debt deepens financialization in the Cambodian countryside, *The Journal of Peasant Studies*, 2025.

<sup>566</sup> Association of Banks in Cambodia Promotes Market Conduct to Foster Trust and Integrity in the Banking Sector, *Khmer Times*, November 13, 2024, <https://bit.ly/3DvX774>.

<sup>567</sup> CAO interview with ABC; ABC Chairman says it is the association’s belief that regulators will be pragmatic and forward-thinking in their decision-making, *Khmer Times*, October 17, 2023 <https://bit.ly/3ReLHYh>.

<sup>568</sup> CMA, 76% of Credit-Related Microfinance Staff passed “Responsible Lending” Certification Program, March 18, 2024, <https://bit.ly/43HK4Kb>.

<sup>569</sup> CAO Policy, para. 120(c).

<sup>570</sup> Three of these investments were repaid after the complaint was filed and were already exited at the time of the compliance appraisal: Hattha Bank projects #39167 and #44211, and Amret project #41294, all exited in 2022. The other two projects were exited between the compliance appraisal and the date of this report: Amret, project #44231 was exited in June 2023, and Hattha Bank project #45535 was exited in July 2024.

<sup>571</sup> IFC’s active financial link with Amret is through its 2014 equity investment (IFC project # 34748) and IFC’s active financial link with Hattha Bank is active subordinate loan (IFC project #44742).

<sup>572</sup> IFC Projects #32141, #33206, # 34993, #37180, #36280, #38235

the following actions at the project and institutional levels:

### Project-Level Recommendations

1. **IFC should work with its clients to design and implement an effective program to assess, strengthen, and resolve the insolvencies and indebtedness of individual borrowers, including the 18 who submitted this complaint.** Options should include a pause in repayments, forgiveness of interest or debt owed, loan restructuring, refinancing without increasing debt, livelihood or employment support or other adequate measures, depending on each borrower’s situation. These programs should also consider:
  - a. **Collecting baseline data and socioeconomic profiles of sub-borrowers**, including their loan exposure, interest rates, repayment capacity, and socioeconomic vulnerability, through a qualified agency or local NGO, to ensure community trust and participation.
  - b. Exploring all **loan restructuring, refinance or forgiveness options** for impacted borrowers with verifiable financial hardship, and **consideration of exit pathways for indebted borrowers**. The latter could include individualized debt management planning, referral to income generation initiatives, financial counseling, and helping borrowers with long-term strategies to reduce reliance on credit.
  - c. **Partner with community-based NGOs** to establish communication channels with borrowers, monitor lending practices, and promote meaningful stakeholder engagement throughout IFC’s ongoing investments. Partnerships could also offer **livelihood and employment support** and connect borrowers with relevant job markets (for example, by organizing job fairs, vocational training, and employer engagement activities in collaboration with local authorities).

IFC can leverage its contractual agreements and reputational influence to secure client participation, and partner with trusted local NGOs to conduct borrower assessments and deliver livelihood support. IFC could also mobilize donor trust funds or its Advisory Services resources to finance debt counseling, vocational training, and monitoring.

2. **IFC should continue efforts to support the creation of a functionally independent<sup>573</sup> complaint mechanism for all microfinance providers in Cambodia**, that follows Good International Industry Practice in line with PS1 requirements. The mechanism should be independent in governance and operations from financial institutions and their affiliates, and FIs should commit to comply with and implement its resolutions.<sup>574</sup> IFC began working with the Association of Banks of Cambodia, the Cambodian Microfinance Association (CMA), and other development partners in 2024 to establish such a mechanism for the

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<sup>573</sup> A functionally independent complaint mechanism should function without influence or control from any of the potential parties to the complaints it could receive.

<sup>574</sup> The WBG has explained that GIIP indicates that consumers should be provided an alternative dispute resolution mechanism, that is independent of both parties, discharges its functions impartially and has the powers to issue decisions that are binding on the financial service provider. For other requirements and examples of such mechanisms see, WBG, Good Practices for Financial Consumer Protection, 2017, pp. 51-52, <https://bit.ly/41PWcWT>.

sector. IFC could convene these partners along with the National Bank of Cambodia (NBC), other DFIs, and civil society to co-design an effective model.<sup>575</sup>

3. **IFC should carry out comprehensive assessments of the policies and practices of each financial institution** involved in this case in order to:
  - a. Identify and address PS1 and PS7 gaps, including relevant GIIP, and strengthen capacity of the clients and sub-clients
  - b. Require clients to incorporate social performance criteria beyond loans approved or debts collected in incentive schemes for credit/collection officers and supervisors.
4. **IFC should develop a client training program** to systematically strengthen grievance mechanisms at the client and sub-client level, with an emphasis on developing tools and capacity for dispute resolution that prevents threats, harassment, or reprisals against borrowers. In parallel, provide specialized training aligned with GIIP for credit and collection officers, covering proper assessment of repayment capacity, and understanding of IFC requirements regarding Indigenous Peoples and how to avoid harm in their lending and collection practices. IFC should require follow-up reporting on implementation.
5. **IFC should work with clients to develop and implement financial empowerment programs** that: (i) build vulnerable borrowers’ understanding and capacity in engaging with BFIs, and (ii) develop accessible communication and loan information material for borrowers. Training should be tailored to local languages and literacy levels, and delivered by agencies or NGOs with established community presence. Content should include informed borrowing, risk of over-indebtedness, loan terms, grievance mechanisms, and borrowers’ rights, with the aim of enabling borrowers to make informed decisions and engage constructively with BFIs. As part of this effort, IFC should support client and sub-clients to develop loan documentation and borrower communications that are accessible, culturally appropriate, and presented in local languages to ensure informed consent and borrower understanding of rights and obligations.

In taking forward project-level actions, CAO recalls its core principle that “people should not be harmed as a result of cooperating in a CAO process,”<sup>227</sup> including upon completion and publication of the compliance investigation report and subsequent MAP implementation. As outlined in IFC’s statement on retaliation against civil society and project stakeholders, “IFC does not tolerate any action by an IFC client that amounts to retaliation—including threats, intimidation, harassment, or violence—against those who voice their opinion regarding the activities of IFC or [its] clients.”<sup>228</sup> CAO urges all parties and stakeholders to use all efforts to safeguard complainants and their representatives from threats and reprisals due to their engagement and participation in this case. Consultation and engagement with complainants and their representatives should involve

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<sup>575</sup> Options for funding could include a blended model of donor contributions, MFI levies, and development partner support.

mechanisms to prevent and minimize the risk of reprisals as IFC develops and implements its Management Action Plan.

### **Institutional-Level Recommendations**

To address the underlying causes of the non-compliance findings in this case, CAO recommends that IFC strengthen integration of its Sustainability Policy obligations—including those related to the identification, assessment, and protection of vulnerable groups and Indigenous Peoples—into the structuring, due diligence, and supervision of its microfinance activities.

Recognizing IFC’s key role and work in both the global and Cambodian microfinance markets, IFC could build on its existing work on responsible finance and sector reform in the global and Cambodian microfinance markets, to:

- 1. Develop capacity and tools, as well as leverage in-house expertise, to design and implement a process for use during project due diligence and supervision to comprehensively identify vulnerable groups and assess E&S impacts of investments involving microfinance.** This process should also evaluate the capacity and experience of its clients to meet GIIP requirements regarding vulnerable borrowers and Indigenous Peoples. During supervision, IFC should require FIs to include in, their annual monitoring reports, the profiles of a representative sample of micro-credit borrowers (e.g., with the loan amount and term, interest rates, repayment made, their financial vulnerability and levels of distress, and how the FI staff interact with the community). This would help IFC track borrower outcomes and ensure client alignment with the Performance Standards, GIIP, and relevant national law.
- 2. Incorporate standard covenants, with reporting requirements, on the fulfillment of GIIP regarding vulnerable borrowers in legal agreements for financial inclusion investments.** These GIIP standards should be binding requirements that the clients fulfill and report on in their E&S annual reports, and which IFC will monitor to verify their implementation.

## Annex A. Ongoing Initiatives in Cambodia

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The following are the initiatives CAO is aware have been started in Cambodia since 2023 by the Cambodian government, regulatory agencies, financial institutions, civil society, and development partners, in response to the growing concerns about the impacts of over-indebtedness on microfinance borrowers.

### 1. UN Multi-Stakeholder Dialogue

In November 2023, the office of the United Nations in Cambodia and National Bank of Cambodia (NBC) launched a multi-stakeholder dialogue spanning 100 groups and institutions to identify and monitor actionable steps and commitments.<sup>576</sup> By January 2025, this had resulted in compliance assessments for the country’s 30 largest FIs with the Banks and Financial Institutions Code of Conduct and the global client protection standards of Cerise+SPTF.<sup>577</sup> Other initiatives provided FIs with online access to information on registered hard titles of ICLTs and state-owned lands to promote compliance with laws prohibiting their use as collateral,<sup>578</sup> and reviewed FIs’ key performance indicators to align them with the national microfinance Code of Conduct and global standards. The Association of Banks of Cambodia (ABC) and CMA also established a Financial Consumer Centre (FCC), which launched a call center for borrowers in September 2024.<sup>579</sup>

IFC is involved in the dialogue,<sup>580</sup> and through its FIG Advisory Project on Financial Consumer Protection project (#607528) supported the FCC’s establishment. IFC and other development partners,<sup>581</sup> are now leading efforts to assess the feasibility and design of an independent debt counseling and mediation mechanism such as a financial ombudsman to sit under the FCC.<sup>582</sup>

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<sup>576</sup> CAO was informed that, although some CSOs were invited to participate in the multistakeholder meetings, they abstained from participating because borrowers were not included in the process. CSOs informed CAO that they considered borrowers should be able to participate in the process, with proper safeguards from potential reprisals, since they were the people directly affected. <https://bit.ly/423yxDI>.

<sup>577</sup> The Consumer Protection Harmonization Assessment Tool was developed by Cerise+SPTF. Hin Pisei, Cambodia advances ethical banking with new client protection assessment tools, The Phnom Penh Post, November 29, 2024, <https://bit.ly/4hwUHmn>.

<sup>578</sup> S. Manet, NBC-UN Meeting takes stock of microfinance in Cambodia, *Khmer Times*, January 27, 2025, <https://bit.ly/423yxDI>.

<sup>579</sup> Other milestones included: efforts to establish data-sharing for BFI and non-bank financial services, implementation loan restructuring measures, and the launch of a pilot of climate risk and crop insurance program under the Modern Agricultural Cooperative. See: UN Cambodia, Joint Statement, Progress Update: NBC-UN Convening Multi-Stakeholder Consultation on Microfinance in Cambodia, January 28, 2025, <https://bit.ly/423yxDI>.

<sup>580</sup> S. Manet, NBC-UN Meeting takes stock of microfinance in Cambodia, *Khmer Times*, January 27, 2025, <https://bit.ly/4huXiqE>.

<sup>581</sup> FMO, Possible Sector Initiative – Cambodia, <https://bit.ly/3R7beCL>; In December 2022 a complaint was filed with the Dutch National Contact Point (NCP) for the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, regarding Oikocredit – a global social impact investor headquartered in the Netherlands – regarding its investments in Cambodia’s microfinance sector. The complaint alleged that Oikocredit’s has failed to conduct adequate due diligence on its investments in the sector since at least 2017, despite evidence of harms directly linked to those investments. The mediation process was closed in January 2025, and as a result of it Oikocredit committed to developing a framework for an independent mediation mechanism and a solidarity and relief facility, in line with international standards, including the UN Guiding Principles on Business and Human Rights. See: See: OECD Watch, Cambodian League for the Promotion and Defense of Human Rights et al. vs. Oikocredit, <https://bit.ly/3FvjBFR> and Oikocredit, Closing of OECD Dialogue, January 24, 2025 <https://bit.ly/3XPwDnK>.

<sup>582</sup> UN, Joint Statement Progress Update, <https://bit.ly/423yxDI>. FMO, Possible Sector Initiative – Cambodia, <https://bit.ly/3R7beCL>.

## 2. Directorate General of Regulation and Financial Inclusion

Through its FIG Advisory Project on Financial Consumer Protection project (#607528), IFC has also supported NBC’s efforts to increase its supervision of financial consumer protection by setting up a new Directorate General of Regulation and Financial Inclusion<sup>583</sup>.

## 3. Financial Literacy Programs

Since 2016, NBC has launched several financial literacy programs in collaboration with the CMA, ABC, CBC, and relevant ministries. These include workshops at provincial and district levels, social media campaigns, and integration of financial literacy into the school curriculum.<sup>584</sup> Since 2023, the focus has expanded to include financial inclusion and consumer protection for women and rural communities.<sup>585</sup>

Market actors including SPTF, CMA, and individual lenders and investors, have also conducted financial literacy programs and sought to improve FI governance structures. In 2024, SPTF engaged with market actors to design an independent grievance redress and debt counselling mechanism for low income and poor households that are consumers of formal financial services.<sup>586</sup> As a result, in 2024, SPTF launched a pilot project in three villages in the Ratanakiri province to strengthen consumer empowerment for debt-stressed clients. This initiative involves implementing village-based debt counselling services led by trained "village debt counsellors" from the community. Clients will learn to monitor their household cash flow, access personal credit bureau reports, submit formal complaints, negotiate with financial service providers (FSPs) on their financial health and debt, and understand the grievance escalation matrix (ABC, CMA, and other formal channels).<sup>587</sup>

## 4. Responsible Lending Certification Program for Credit Officers

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<sup>583</sup> NBC, Annual Supervision Report 2023, p.23, <https://bit.ly/4iskMnQ>

<sup>584</sup> Since 2016, the ‘Let’s Talk Money’ campaign targeting the youth in collaboration with international NGO social media campaign and comic books, see: NBC, Let’s Talk Money Campaign, <https://bit.ly/43KCWwF> 2019 “Little by little” campaign financial literacy, little business, insurance. In 2017 Embedding Financial Literacy in School curriculum has been included in the curriculum. See: <https://bit.ly/4!9un4K>

<sup>585</sup> Notably, the Safe Community Finance Project, designed for communities has been introduced in four provinces, with plans to extend in to other provinces. See: CMA, Empowering Communities: “Community Safe Finance Project” Makes Strong Start and Gears Up for 2024, <https://bit.ly/4bSkHHZ>; UN, Joint Statement, Progress Update: NBC-UN Convening Multi-Stakeholder Consultation on Microfinance in Cambodia, January 28, 2025, <https://bit.ly/423yxDI>; C.Vanyuth, Strengthening safe finance empowered local residents, October 10, 2024, <https://bit.ly/425qrKW>. At village level, financial literacy, banking products, consumer protection, personal finance and scams.

<sup>586</sup> Cerise+SPTF, Strengthening Client Protection Practices in Cambodia, Proposal for Customer Empowerment Pilot in Ratanakiri, Submitted by the Social Performance Task Force, 12 July 2024, p.2.

<sup>587</sup> Cerise+SPTF, Strengthening Client Protection Practices in Cambodia, Proposal for Customer Empowerment Pilot in Ratanakiri, Submitted by the Social Performance Task Force, 12 July 2024.

CMA and ABC have led training for FI CEOs and shareholders on the role of governance and client protection.<sup>588</sup> With support from NBC, they introduced a Responsible Lending certification program in 2022 for credit officers and other credit-related staff. This program and certification, provided by the Institute of Banking and Finance, is compulsory for ABC members’ lending officers since at least 2023<sup>589</sup> and CMA plans to follow suit for members’ credit-related staff in 2025.<sup>590</sup>

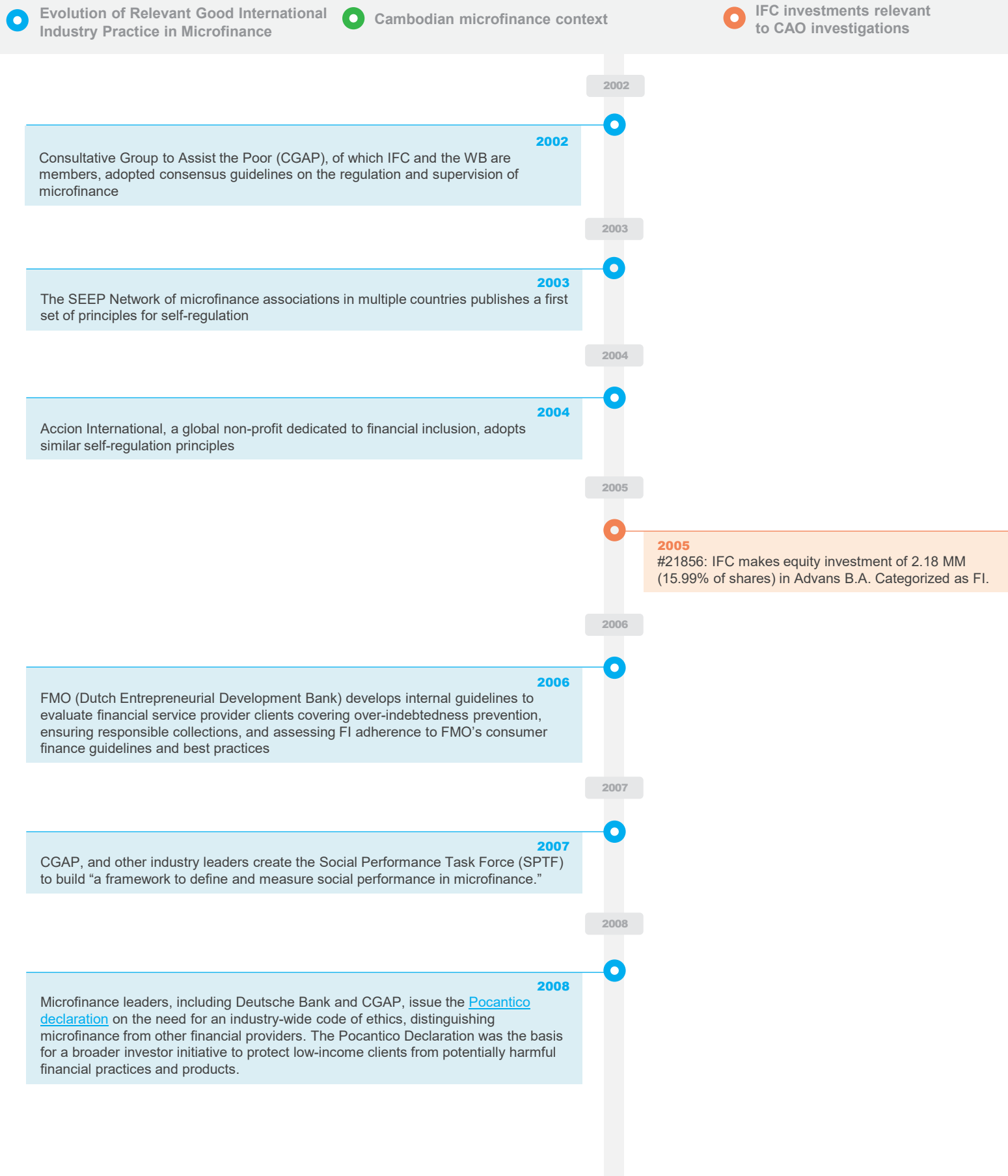
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<sup>588</sup> Association of Banks in Cambodia Promotes Market Conduct to Foster Trust and Integrity in the Banking Sector, *Khmer Times*, November 13, 2024, <https://bit.ly/3DvX774>.

<sup>589</sup> CAO interview with ABC; ABC Chairman says it is the association’s belief that regulators will be pragmatic and forward-thinking in their decision-making, *Khmer Times*, October 17, 2023 <https://bit.ly/3ReLHYh>.

<sup>590</sup> CMA, 76% of Credit-Related Microfinance Staff passed “Responsible Lending” Certification Program, March 18, 2024, <https://bit.ly/43HK4Kb>.

**Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.**



# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.

Evolution of Relevant Good International Industry Practice in Microfinance

Cambodian microfinance context

IFC investments relevant to CAO investigations

2009

2009-2019

The [Smart Campaign Client Protection Principles](#) are published

From 2009 to 2020, the global Smart Campaign led by the Center for Financial Inclusion (CFI) and housed at Accion International, was established to support the safe and responsible delivery of financial services to underserved consumers. The campaign, which ran until 2020, developed the first global financial consumer protection standard in the form of Client Protection Principles (CPPs), and established a rigorous certification program for financial service providers. The principles included:

1. **Appropriate product design and delivery to prevent harm**
2. **Prevention of over-indebtedness** (adequate care regarding repayment capacity)
3. **Transparency** to allow informed decisions
4. **Responsible pricing**
5. **Fair and respectful treatment of clients.**
6. **Privacy of client data.**
7. **Mechanisms for complaint resolution**

These principles were accompanied by tools and templates to help financial institutions put them into practice, as well as tools for independent assessors to check their implementation, best practice guidance on specific topics and training sessions to facilitate adoption

2009

#27827: IFC quasi-equity investment in the Microfinance Enhancement Facility (MEF) of US\$150 MM (21.6% shares). Project categorized as FI.

2009

A World Bank-funded assessment of the global economic crisis in Cambodia documented that the "inability to repay a loan is now a grave concern for the poor and vulnerable[, and that a]ll respondents reported large outstanding debts to various sources, including private moneylenders, relatives and micro-finance institutions (MFIs)."

2009

Launch of [Responsible Finance Forum](#), managed by IFC and including DFIs, public donors, governments, regulators, and others. The forum incorporated the Smart Campaign client protection principles in its work.

2010

2010

CGAP updates and publishes "[Implementing the Client Protection Principles: A Technical Guide for investors](#)", which included a Client Protection Due Diligence Checklist for investors.

2010

First loan from MEF to Hattha Bank; followed by multiple loans to Hattha Bank until 2022, with the final one repaid in May 2022.

2010

First loan from MEF to PRASAC followed by multiple loans until 2022 with the final one repaid in July 2024.

2011

2011

IFC sent a Memorandum on Responsible Finance to the Corporate Operations Committee (COC)

2011

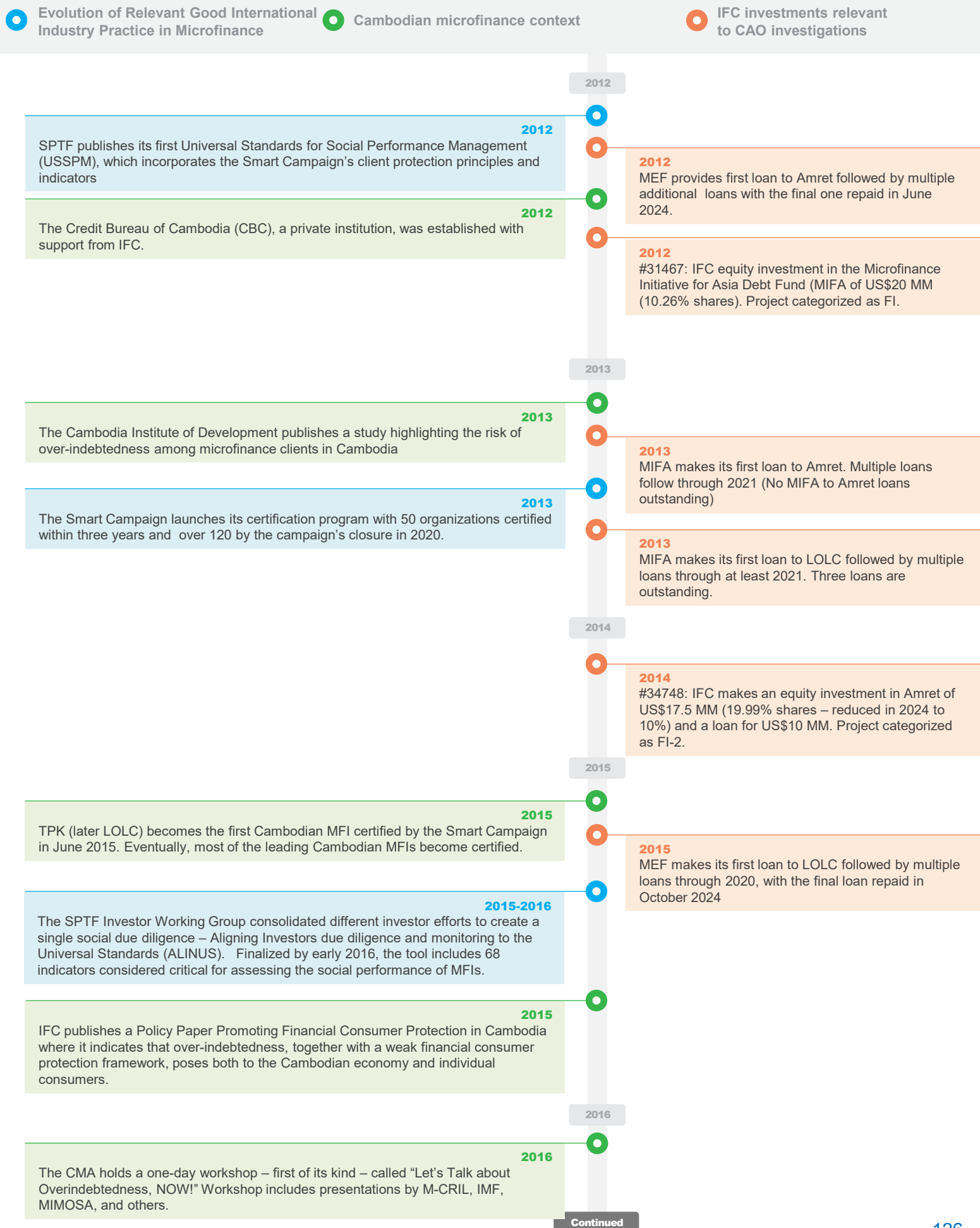
CGAP published a paper highlighting Cambodia's MFI industry was at high risk for over-indebtedness

2011

Launch of the [Principles for Investors in Inclusive Finance](#) (PIIF) during the 2nd Responsible Finance Forum in The Hague (co-organized by IFC). The PIIF consider client protection principles crucial and urges financiers to integrate client protection in investment policies and practices.

Continued

# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.



# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.

Evolution of Relevant Good International Industry Practice in Microfinance

Cambodian microfinance context

IFC investments relevant to CAO investigations

2016

The CMA, with support from social investors and DFIs (ADA, BIO, FMO, Incofin, and Proparco) begins work on Lending Guidelines approved by the CMA, and a majority of its members in December 2016. The Preah Sihanouk MoU on Temporary Lending Guidelines is issued, with monitoring provided by the Credit Bureau of Cambodia (CBC). More than 20 investors, not including IFC, endorse the MoU.

The Lending Guidelines impose four rules:

1. Enhanced reporting requirements to the CBC
2. Limits on multiple loans, with a maximum of 2 individual or 3 group loans
3. Recognition of the risks of aggressive loan refinancing (this was updated with specific limits in 2018)
4. Promotion of client protection: by (i) acknowledging the importance of productive assets to low income clients and communicating that all possible efforts should be made to avoid selling such assets, especially land, to repay loans; (ii) committing to review incentive schemes to maximize client protection in lending and collection processes; (iii) committing to develop and operationalize clear policies for restructuring and rescheduling loans for clients unable to meet their repayment commitments, in line with Smart Campaign guidelines; and (iv) gradually minimizing the involvement of local authorities as agents in managing village banks, particularly for collection of loan installments. This fourth rule had no specific reporting requirement or monitoring scheme.

2017

2017

#39167: IFC makes a senior MSME loan to Hattha Kaksekar Limited, now Hattha Bank Plc, which is repaid in June 2022, for US\$5 MM. Project categorized as FI-3.

2018

2018

#41294: IFC makes an MSME loan to Amret of US\$10 MM, which is repaid by July 2022. Project categorized as FI-2.

2018

The CMA updated the Lending Guidelines to include mandatory compliance requirements for specific indicators for all CMA members, based on monitoring data provided by the CBC, and add specific limits on refinancing by establishing conditions of timing, frequency, and the size of loans for refinancing.

2018

#38609: IFC makes a private equity investment in North Haven Thai of US\$15 MM (3.38% shares). Project categorized as FI-2.

2018

The Smart Campaign endorses the CMA Lending Guidelines and clarifies that compliance verification will be mandatory for all MFIs seeking to maintain (or receive) Smart Certification in Cambodia.

2018

MIFA makes a loan to Sathapana, which remains outstanding as of the date of this report.

2019

2019

The World Bank issued a [Technical Note on Complaints Handling within Financial Service Providers Principles](#)

2019

#42480: IFC makes a SME-supporting loan to ACLEDA of US\$110 MM with a focus on digitalization and women-owned SMEs. Project categorized as FI-2

2019

The World Bank issues a [Cambodia Policy Note on microfinance and household welfare](#) that warned of "the quickly increasing debt-to-consumption ratio [that] has raised concerns about the debt repayment capacity of a significant number of borrowers."

2019

Collateral Damage: Land Loss and Abuses in Cambodia's Microfinance Sector report is published by Sahmakum Teang Tnaut and LICADHO

Continued

# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.

● Evolution of Relevant Good International Industry Practice in Microfinance

● Cambodian microfinance context

● IFC investments relevant to CAO investigations

2020

2020

IFC commissions a Microfinance Index of Market Outreach and Saturation (MIMOSA) report. The report concludes that Cambodia has reached the maximum market saturation level measured by the index and notes growing loan sizes, increasing loan repayment periods, high market penetration, and lack of consumer protection and regulation.

2020

The Smart Campaign announces its closure, with oversight of existing certifications transferred to the respective Rating Agencies. The project and all its components are transferred to CERISE+SPTF.

2020

#44231: IFC makes an MSME Covid loan to Amret, repaid by 2024, of US\$25 MM, with a focus on women-owned MSMEs. Project categorized as FI-3.

2020

#44211: IFC makes a senior MSME Covid loan to Hattha Bank of US\$25 MM with a focus on women-owned MSMEs, which is repaid by June 2022. Project is categorized as FI-3.

2021

2021

CERISE+SPTF launch the [Client Protection Pathway](#). This includes certifications to be conducted and issued by approved rating agencies. The Client Protection Pathway includes eight standards, each with its own scope and guidelines: the seven standards previously included in the Smart Campaign and an eighth standard establishing that the governance and management of financial providers are committed to client protection, with an internal audit & HR system to support its implementation.

2021

#44882: IFC makes a SME loan of US\$169 MM to ACLEDA with a focus on women-owned SMEs. Project categorized as FI-2.

2021

#45535 : IFC makes a senior MSME Covid loan of US\$70 MM to Hattha Bank, repaid in 2024. Project categorized as FI-2.

2021

The UN Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of human rights, the UN Secretary General and the Office of the High Commissioner for Human Rights in 2020, 2021 and 2022 express concern about the adverse social repercussions of over-indebtedness in Cambodia

2021

#44742: IFC makes a subordinated MSME Covid loan to Hattha Bank of US\$40 MM.

Project categorized as FI-2.

2021

Right to Relief: Indebted Land Communities Speak Out report is published by Equitable Cambodia and LICADHO

2021

MIFA Impact and Outreach Report found that 72% or more of the survey respondents in Cambodia claim an overall improvement of quality of life following the loans extended by the MFIs

2022

2022

The ABC, the CMA, and the Cambodia Association of Fintech & Technology adopt the Banking and Financial Institution Codes of Conduct, requiring all formal financial institutions in the country comply with the Lending Guidelines, and CBC monitoring.

2022

Investment by North Haven Thai in ACLEDA.

2022

In a 2022 report on Cambodia, the UN Secretary General states that microfinance lending has heightened the vulnerabilities of already vulnerable populations, and that total outstanding debt owed to MFIs as a percentage of national GDP is among the highest in the world.

A study commissioned by the German Federal Ministry for Economy Cooperation and Development identifies debt related food reduction, land sales, and children dropping out of school to work and help repay debt as coping mechanisms

Continued

# Evolution of good international industry practice (GIIP) to manage social risks and impacts from microfinance in relation to IFC's investments in this case.

● Evolution of Relevant Good International Industry Practice in Microfinance

● Cambodian microfinance context

● IFC investments relevant to CAO investigations

2022

2022

The ABC, the CMA, and the Cambodia Association of Fintech & Technology adopt the Banking and Financial Institution Codes of Conduct, requiring all formal financial institutions in the country comply with the Lending Guidelines, and CBC monitoring.

2022

Investment by North Haven Thai in ACLEDA.

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In a 2022 report on Cambodia, the UN Secretary General states that microfinance lending has heightened the vulnerabilities of already vulnerable populations, and that total outstanding debt owed to MFIs as a percentage of national GDP is among the highest in the world.

A study commissioned by the German Federal Ministry for Economy Cooperation and Development identifies debt related food reduction, land sales, and children dropping out of school to work and help repay debt as coping mechanisms

2023

2023

CMA and NBC, together with CERISE+SPTF, launch the "Safe Finance" project in Cambodia, emphasizing financial literacy, staff training, and stronger complaints handling systems.

In August, CPP certifications for AMK, Amret, LOLC, and Sathapana are placed under review by their respective certifying bodies

In November, a CMA-commissioned study finds similar social impacts to those of the 2022 study of the German government.

The CMA produced a Standard Contract and Standard Contractual Terms for Banking and Financial Institutions as an attempt to promote transparency, effectiveness, and consumer protection.

2023

Debt Threats: A Quantitative Study of Microloan Borrowers in Cambodia report is published by Equitable Cambodia and LICADHO

2023

The UN Special Rapporteur on the situation of human rights in Cambodia and the UN Committee on Economic, Social, and Cultural Rights expresses concern about the adverse social repercussions of over-indebtedness.

2024

2024

Impact data firm 60 decibels releases a survey of 2,939 MFI clients in Cambodia, covering ten of the largest financial service providers. The results confirm a high level of repayment stress among borrowers leading to sacrifices and negative social impacts such as selling land and children dropping out of school.

## Annex C. Overview of the CAO Investigation Process

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“The purpose of the CAO compliance function is to carry out reviews of IFC/MIGA’s compliance with E&S [Environmental and Social] Policies, assess related Harm, and recommend remedial actions where appropriate.”<sup>591</sup> The compliance function does not evaluate the adequacy or suitability of E&S Policies, nor does it make findings in relation to the compliance of a project, sub-project, client, or sub-client with the IFC Performance Standards.<sup>592</sup> However, in carrying out its role, the CAO compliance function will assess IFC/MIGA’s review and supervision of its E&S requirements at the project- or sub-project level, and consider project- or sub-project level E&S performance.<sup>593</sup>

Notably, CAO has no authority with respect to judicial processes. It is not a court of appeal, a legal enforcement mechanism, or a substitute for international court systems or court systems in host countries.

This compliance case, from appraisal to the investigation report was all prepared following the CAO Policy.

### Investigation

A CAO compliance investigation focuses on IFC/MIGA and how it assured itself of a project’s E&S performance. The objective of a compliance investigation is to determine:

- (1) whether IFC/MIGA has complied with its E&S Policies; and
- (2) whether there is harm or potential harm related to any IFC/MIGA non-compliance.<sup>594</sup>

In assessing IFC/MIGA’s E&S performance, it is often necessary for CAO to review the actions of IFC/MIGA’s client and to verify E&S outcomes in the field.

### Scope and Methodological Approach<sup>595</sup>

The scope of a compliance investigation is determined in the Investigation Terms of Reference (TOR), published together with CAO’s appraisal report. A compliance investigation is based on information available to CAO from documents, interviews, statements, reports, correspondence, CAO observations of activities and conditions, and other sources that CAO deems relevant. CAO’s investigation report will include the investigation findings with respect to compliance, non-compliance, and any related harm. The report will also include context, evidence, and reasoning to support CAO’s findings and conclusions regarding the underlying causes of any non-compliance identified.<sup>596</sup>

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<sup>591</sup> CAO Policy, para. 76.

<sup>592</sup> Ibid., para 77.

<sup>593</sup> Ibid.

<sup>594</sup> CAO Policy, para. 112.

<sup>595</sup> Ibid., paras. 115, 117, and 118.

<sup>596</sup> Ibid., para. 120(b).

Sufficient, relevant evidence is required to afford a reasonable basis for CAO's compliance findings and conclusions.<sup>597</sup> CAO will not make findings and conclusions with the benefit of hindsight.<sup>598</sup> Rather, CAO will assess whether there is evidence that IFC/MIGA applied relevant E&S requirements considering the sources of information available at the time the decisions were made.<sup>599</sup> Furthermore, while CAO may seek clarifications during the investigation, it will not accept an expansion away from the scope identified in the TOR. Should additional issues or concerns emerge during an investigation, these may be subject to a separate appraisal at the discretion of the CAO Director General.

A CAO compliance investigation is not a judicial or legal process.<sup>600</sup> CAO follows a non-adversarial model, in which it “systematically and objectively considers facts, circumstances, information, and evidence *as may be available* to it from documents, interviews, statements, reports, correspondence, and other sources as CAO determines relevant” [emphasis added]<sup>601</sup> CAO’s compliance findings and conclusions are based on “sufficient, relevant” evidence as may be available.<sup>602</sup> Also, as a non-adversarial process, CAO obtains information from several sources; complainants are not required to submit evidence or supporting documentation of their allegations. While complainants may choose to submit evidence,<sup>603</sup> under the CAO Policy, this is not a requirement to file a complaint or for CAO to reach findings of non-compliance and related harm.

IFC’s E&S policies establish the responsibility of IFC and its clients to collect or document information on the project’s E&S performance.<sup>604</sup> In assessing whether there is Harm related to a non-compliance finding, CAO will take into account whether IFC non-compliance contributed to an absence of data or information needed to verify the complainants’ allegations of harm. In such circumstances, CAO may find that there are “indications of related Harm,” when it is reasonably likely that the alleged harm raised by complainants occurred or could happen in the future.

In relation to any findings of IFC/MIGA non-compliance and related harm, CAO will make recommendations for IFC/MIGA to consider in the development of a Management Action Plan (MAP) relating to the remediation of project or sub-project -level non-compliance and related harm, and/or steps needed to prevent future non-compliance, as relevant in the circumstances.<sup>605</sup> Recommendations will take into account the implications of any IFC/MIGA exit.<sup>606</sup>

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<sup>597</sup> Ibid., para. 117.

<sup>598</sup> Ibid., para. 116.

<sup>599</sup> Ibid.

<sup>600</sup> CAO Policy, para. 9.

<sup>601</sup> CAO Policy, paras. 115 and 117.

<sup>602</sup> CAO Policy, para. 117.

<sup>603</sup> CAO Policy, paras. 32 and 34(d).

<sup>604</sup> See, for example, IFC Sustainability Policy 2006, paras. 15 and 26; 2006 PS1 9, 14, 16, 21, 22, 24, 25, 26; IFC Sustainability Policy 2012, paras. 28, 45; 2012 PS1, paras. 7, 14, 23, 24, 30, and 34. See also, CAO Policy, para. 114 regarding CAO’s need to assess IFC’s review and supervision of its E&S requirements at the project and sub-project level when considering findings of Harm.

<sup>605</sup> Ibid., para. 120(c).

<sup>606</sup> Ibid.

## Findings of Harm

The standard applied in CAO’s compliance investigation for assessing related “Harm” is stipulated in the CAO Policy. It defines “Harm” as “any material adverse environmental and social effect on people or the environment resulting directly or indirectly from a Project or Sub-Project. Harm may be actual or reasonably likely to occur in the future.” References to “harm” that are not capitalized should be read in accordance with the ordinary and customary meaning given to such term.<sup>607</sup>

Following a finding of IFC/MIGA non-compliance, a CAO compliance investigation report will make one of the following assessments of related Harm:

- There has been Harm to complainants. This conclusion is reached where there is sufficient, relevant evidence to afford a reasonable basis for CAO’s compliance conclusion.
- There are indications of Harm to complainants. This conclusion is reached based on available evidence that would indicate a likelihood that Harm is actual or reasonably likely to have occurred or can occur in the future. When an IFC/MIGA non-compliance contributed to an absence of data or information needed to verify the complainants’ allegations of harm, CAO may find that there are “indications of related harm” when it is reasonably likely that the alleged harm raised by complainants occurred or could happen in the future.
- There is insufficient evidence to reach a conclusion on Harm to complainants.

## Investigation Report Finalization

Upon receiving comments on the draft investigation report from IFC/MIGA and the complainants, CAO will finalize its investigation report. Once the final investigation report is officially submitted to IFC/MIGA Management and circulated to the Board, CAO’s website will notify the public of the investigation’s completion.<sup>608</sup>

Upon CAO’s official submission of the compliance investigation report to IFC/MIGA, IFC/MIGA Management has 50 business days to submit a management report to the Board for consideration. The management report must include a MAP for Board approval. A MAP outlines actions that IFC/MIGA proposes in response to CAO’s investigation findings. IFC/MIGA must consult with complainants and the client during its MAP preparation process.<sup>609</sup>

At the same time that IFC/MIGA presents the MAP for Board approval, CAO will submit comments on the proposed MAP to the Board. Upon the Board’s approval of the MAP, the compliance investigation report, management report, and MAP will be published on CAO’s website.<sup>610</sup>

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<sup>607</sup> CAO Policy, Glossary and footnote 2 in the CAO Policy.

<sup>608</sup> *Ibid.*, para. 128.

<sup>609</sup> *Ibid.*, paras. 130–131, and 134.

<sup>610</sup> *Ibid.*, paras. 135 and 138.

## **Annex D: CAO Non-Compliance Findings, Related Harm, and Recommendations**

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In accordance with the CAO Policy, in response to this compliance investigation, IFC management is required to prepare a Management Report.<sup>611</sup> For the purposes of addressing CAO findings of non-compliance and related harm, if any, the Management Report will include, for Board approval, a Management Action Plan (MAP) comprising time-bound remedial actions proposed by Management.<sup>612</sup> Alternatively, the Management Report should include a reasoned response to CAO’s findings or recommendations regarding non-compliance or related Harm that IFC is unable to address in the MAP.<sup>613</sup> If the Board approves a MAP, CAO’s monitoring will verify effective implementation of the actions set out in the MAP.<sup>614</sup> CAO compliance monitoring will not consider non-compliance findings for which there is no corresponding corrective action in the MAP.<sup>615</sup>

In Table E.1, the first column presents CAO compliance findings and assessment of related harm. The second column will be completed by CAO during its compliance monitoring of this case on the basis of IFC’s Board-approved Management Action Plan.

In Table E.2, in accordance with the CAO Policy,<sup>616</sup> in order to address CAO’s findings of non-compliance and related harm, CAO makes the following recommendations for IFC to consider when developing its Management Action Plan. These recommendations relate to remediation of project-level non-compliance and related Harm, as well as steps needed to prevent future non-compliance.

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<sup>611</sup> CAO Policy, para 130.

<sup>612</sup> *Ibid.*, para. 131.

<sup>613</sup> *Ibid.*, para. 132.

<sup>614</sup> *Ibid.*, para. 140.

<sup>615</sup> *Ibid.*, para. 141.

<sup>616</sup> *Ibid.*, para. 113.

**Table D.1. CAO Findings of Non-Compliance and Related Harm and Corresponding IFC Remedial Actions or Justification for Not Pursuing Remedial Actions**

CAO finds IFC’s pre-investment review and supervision of its 13 investments in this case to be materially non-compliant with its responsibilities under the applicable Sustainability Frameworks.

In relation to the complaint brought to CAO, IFC’s review and supervision of the 13 investments in this case fell short in the areas summarized below. The table below summarizes CAO’s findings regarding IFC’s compliance with its E&S policies and the complainants’ allegations of harm as a result of IFC’s non-compliances.

CAO Findings of Non-Compliance and Related Harm	IFC Remedial Action(s) or IFC Justification for Not Pursuing Remedial Measures
<b>IFC’s compliance with its Sustainability Framework obligations regarding vulnerable populations</b>	
<p>CAO finds that IFC failed during both pre-investment due diligence and investment supervision to require its clients to take measures to identify microfinance borrowers as vulnerable, as required by PS1, and apply tailored protections through their E&amp;S Management Systems. Consistent with its position that microfinance borrowers are not impacted people to whom E&amp;S risk mitigation measures apply, IFC did not require its clients to identify and assess the vulnerability of microfinance borrowers and their households, or adopt appropriate mitigation measures for any of these investments.</p> <p>CAO notes that microfinance products are designed for underserved segments of the population, and that many borrowers and their families have low levels of reading, writing, financial, and legal literacy, which are factors that influence a person’s or household’s vulnerability. Nevertheless, IFC categorized the 13 projects as medium to low E&amp;S risk without taking into account the well-documented social risks and impacts on vulnerable microfinance borrowers in Cambodia, including loss of land, reduction in livelihoods, and loss of access to education. These risks and impacts have been widely documented since the early 2000s and acknowledged by the World Bank Group, including IFC.</p>	

IFC’s due diligence fell short of Sustainability Policy requirements (paras. 22, 31-35) as it did not include an adequate E&S review of client capacity to manage the social risks of microfinance for vulnerable people, or of their capacity to ensure their subprojects do the same where applicable.<sup>617</sup> CAO considers that IFC’s efforts under its *Financial Inclusion and Consumer Protection Strategy* during due diligence and supervision were insufficient to ensure that its clients and sub-clients developed and implemented management systems consistent with GIIP and relevant national regulations. Specifically, IFC did not ensure the microfinance lenders established and implemented an ESMS with the capacity to identify disadvantaged or vulnerable individuals and groups, and implemented differentiated measures so that adverse impacts do not fall disproportionately on them.<sup>618</sup> Moreover, IFC did not ensure that its clients met PS1 requirements to follow, and ensure sub-clients followed, national regulation prohibiting local authorities from promoting loan products, serving as sales agents, or demanding repayment from borrowers.<sup>619</sup>

Based on the above, CAO finds that IFC did not meet its Sustainability Policy obligations to design and carry out its investments with the intent to “do no harm” and ensure that the business activities it finances meet the relevant PS1 requirements, in particular for the for protection of vulnerable groups (paras. 7, 9, and 22).

### **IFC’s compliance with its Sustainability Framework obligations regarding Indigenous Peoples**

CAO’s investigation indicates that, prior to investment, IFC did not apply the Sustainability Framework to review the potential E&S impacts on Indigenous Peoples or identify related mitigation measures in the investments covered by this case, which include microfinance providers operating in IP-majority regions. During due diligence, IFC relied on clients’ self-reporting, without documented verification, that their projects would not carry risks of adverse impacts to Indigenous Peoples or their land and cultural heritage.

<sup>617</sup> For the MEF investment: 2006 Sustainability Policy, para. 17, 27-29.

<sup>618</sup> As required by the 2012 Sustainability Policy, paras 33 and 35, and PS1, para. 7 and 12. For the MEF investment: 2006 Sustainability Policy, para. 27-29, and 2006 PS1, para. 4, 8 and 12. For the Advans investment, see 1998 ESRP, para. 22, footnote 7.

<sup>619</sup> As required by the 2012 Sustainability Policy, para. 35 and PS Overview, para. 5. For the MEF investment: 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

While all 13 projects required application of IFC’s Exclusion List, which specifies the types of projects the institution will not finance, IFC only conducted a minimal pre-investment review for existing clients. In all cases CAO reviewed, IFC applied the Exclusion List to the potential impacts of sub-projects but not the FI clients’ own activities, and there is no evidence that IFC provided clients with information on how to address non-formally recognized IP land or that clients understood how to do so. During its site visit and interviews with local branch staff, particularly in regions with a majority IP population, CAO observed that many of the staff of BFIs interviewed had only a superficial understanding of Exclusion List requirements prohibiting their activities from impinging on IP land.

During E&S supervision, IFC monitored how its clients applied the Exclusion List requirements but provided little documented advice or guidance on the List’s provisions related to Indigenous Peoples, which prohibit microfinance activities that impinge on the land of Indigenous communities without their full documented consent. Even in cases where clients reported that the IP exclusion item was a common reason for loan rejections, IFC did not request verification of how the provision was being applied in practice. CAO’s review of the clients’ and sub-clients’ policies and practices also identified instances where soft land titles from Indigenous borrowers that overlap with IP communal land were accepted as collateral without the community’s consent. This reliance on land as collateral creates a risk that Indigenous borrowers will use individual plots within communal land as collateral in order to maintain access to credit—undermining the protection that the Exclusion List provision is intended to provide.

CAO finds that IFC did not meet its obligations to prevent adverse impacts on Indigenous Peoples and ensure that microfinance activities it finances do not impinge on their lands, without their full documented consent in line with PS7 (paras. 8 and 9)<sup>620</sup> and the IFC Exclusion List. CAO also finds that IFC did not ensure its clients and sub-clients followed related national law protecting Indigenous Peoples’ land rights (2012 Sustainability Policy, para. 35; PS Overview, para. 5).<sup>621</sup>

<sup>620</sup> For the MEF investment, 2006 PS7, paras. 7 and 8.

<sup>621</sup>

For the MEF investment: 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9. Related national law includes: Article 334 of Cambodian Civil Code Procedures (2006); Ministerial order (Prakas) No. 556 S/CH/N on banks, microfinance institutions, and rural credit operators (2017); Article 19 of the Consumer Protection Law (2019). Law on consumer protection (NS/RKM/1119/016); and Sub-decree (Prakas) B7-017-299 on Resolution of Consumer Complaints.

<b>IFC’s compliance with its Sustainability Framework obligations regarding access to recourse to address grievances</b>	
<p>The banks and financial institutions in this case operate grievance mechanisms intended to provide borrowers with access to redress and report on these mechanisms to IFC. However, based on its review of IFC’s E&amp;S due diligence and supervision records, CAO found that IFC generally confirmed the existence of these mechanisms without examining their functioning or adequacy. Specifically, CAO found no evidence that IFC evaluated whether the BFIs’ complaint channels met PS1 requirements, including whether they were prompt, accessible, culturally appropriate, transparent, and equipped with safeguards to prevent retribution.<sup>622</sup> From 2022 onwards, IFC provided advice and training to some clients on preventing threats and reprisals against borrowers who had raised concerns through these mechanisms. While a positive development, these were limited in depth and were not followed by IFC supervision.</p> <p>Based on the above, CAO finds that IFC did not meet its obligations to ensure the clients and sub-clients established adequate grievance mechanisms as required by the 2012 Sustainability Policy (para. 35) nor consistent with PS1 (paras. 34 and 35).<sup>623</sup> Nor did IFC seek to ensure its clients followed relevant national regulations governing the resolution of complaints at financial institutions, as required by the 2012 Sustainability Policy (para. 35) and the PS (Overview, para. 5).<sup>624</sup></p>	
<b>Harm Related to IFC Non-Compliance</b>	
<p>CAO finds Harm to complainants related to IFC’s above non-compliances during due diligence and supervision of its investments in ACLEDA, Amret, Hattha Bank, North Haven Thai, Advans, MEF, and MIFA. CAO finds that IFC failed to contribute to avoiding, reducing, and/or addressing the Harm experienced by complainants due to projects and sub-projects being developed without proper</p>	

<sup>622</sup> 2012 PS1 para.35, 2006 PS1, para.23.

<sup>623</sup> For the MEF investment, 2006 Sustainability Policy, para. 28 and 29, 2006 PS1, para. 23.

<sup>624</sup> For the MEF investment, 2006 Sustainability Policy, para. 28, PS Overview, para. 3, and for the Advans investment, IFC OP 4.01, para. 9.

identification and mitigation of E&S risks and impacts to project-affected people.

CAO finds Harm as follows:

- a) Fifteen complainants, most of whom were already economically vulnerable, reported a decrease in livelihood after selling their agricultural land or other income-generating assets to repay microfinance debts. They described making these sales in response to debt collection pressure or out of fear that the lender would auction their land collateral below market value. Eleven complainants cited reliance on farming as their primary source of income, of whom four had sold all or most of their agricultural land, forcing them to abandon farming for daily work or resort to harmful coping mechanisms. Complainants reported the loss of productive land or assets significantly reduced their ability to generate income, increasing their risk of falling into, or deeper into, poverty.
- b) Of the 18 complainants, six reported reducing the quality or quantity of household meals to repay debt. In 12 cases, complainants reported either postponing medical treatment or experiencing mental health impacts, including insomnia, anxiety, depression, loss of appetite, and in some cases, suicidal thoughts or attempts. Ten complainants withdrew their children from school to help repay debt, with children entering work in all cases. In seven cases, complainants or their family members migrated to other countries or regions in Cambodia to seek work to repay loans, which complainants said led to family separation, disruption of children’s education, exposure to poor working conditions, and gender-specific vulnerabilities. In some cases, it also created further financial strain.
- c) Complainants who are Indigenous Peoples reported additional negative impacts. Seven complainants from a government-recognized IP community reported selling plots that overlapped with communal land to repay microfinance debts, which reduced their livelihoods and, in some cases, affected their identity as Indigenous Peoples. Two of these sales were to non-IP community members. Given that Indigenous Communal Land Titles (ICLTs) are established to “protect collective ownership” and “preserve the identity, culture, [...] custom and tradition of each indigenous community”, CAO considers that the sale of communal land to non-community members inherently affects the broader Indigenous community. CAO concludes that

IFC’s shortcomings regarding lenders’ reliance on using land as collateral and acceptance of collateral overlapping with protected Indigenous land, undermined ICLT processes, compromised the integrity of communal IP land, contributed to intra-community conflicts, and negatively affected Indigenous identity and culture.

All but one complainant reported that officials from the IFC clients and sub-clients threatened them with retaliatory actions such as being taken to local authorities, the police, or the courts, or having their land or home confiscated and sold at below-market value. These tactics reportedly created a climate of fear, discouraging borrowers from approaching lenders for resolution options and leading them to adopt harmful coping strategies. In addition, complainants who attempted to use grievance mechanisms reported that the process itself became a source of threats and harassment. CAO also notes that three female complainants reported the prolonged presence of male BFI officers in their homes while they were alone, which they perceived as an additional form of intimidation.

**Table D.2. CAO Project-Level and Systemic Recommendations**

Project-Level Recommendations
<p><b>1. IFC should work with its clients to design and implement an effective program to assess, strengthen, and resolve the insolvencies and indebtedness of individual borrowers, including the 18 who submitted this complaint.</b> Options should include a pause in repayments, forgiveness of interest or debt owed, loan restructuring, refinancing without increasing debt, livelihood or employment support or other adequate measures, depending on each borrower’s situation. These programs should also consider:</p> <ul style="list-style-type: none"><li><b>a. Collecting baseline data and socioeconomic profiles of sub-borrowers</b>, including their loan exposure, interest rates, repayment capacity, and socioeconomic vulnerability, through a qualified agency or local NGO, to ensure community trust and participation.</li><li><b>b. Exploring all loan restructuring, refinance or forgiveness options</b> for impacted borrowers with verifiable financial hardship, and <b>consideration of exit pathways for indebted borrowers.</b> The latter could include individualized debt management planning, referral to income generation initiatives, financial counseling, and helping borrowers with long-term strategies to reduce reliance on credit.</li><li><b>c. Partner with community-based NGOs</b> to establish communication channels with borrowers, monitor lending practices, and promote meaningful stakeholder engagement throughout IFC’s ongoing investments. Partnerships could also offer <b>livelihood and employment support</b> and connect borrowers with relevant job markets (for example, by organizing job fairs, vocational training, and employer engagement activities in collaboration with local authorities).</li></ul> <p>IFC can leverage its contractual agreements and reputational influence to secure client participation, and partner with trusted local NGOs to conduct borrower assessments and deliver livelihood support. IFC could also mobilize donor trust funds or its Advisory Services resources to finance debt counseling, vocational training, and monitoring.</p> <p><b>2. IFC should continue efforts to support the creation of a functionally independent<sup>625</sup> complaint mechanism for all microfinance providers in Cambodia</b>, that follows Good International Industry Practice in line with PS1 requirements. The mechanism should be independent in governance and operations from financial institutions and their affiliates, and FIs should</p>

<sup>625</sup> A functionally independent complaint mechanism should function without influence or control from any of the potential parties to the complaints it could receive.

commit to comply with and implement its resolutions. IFC began working with the Association of Banks of Cambodia, the Cambodian Microfinance Association (CMA), and other development partners in 2024 to establish such a mechanism for the sector. IFC could convene these partners along with the National Bank of Cambodia (NBC), other DFIs, and civil society to co-design an effective model.<sup>626</sup>

- 3. IFC should carry out comprehensive assessments of the policies and practices of each financial institution** involved in this case in order to:
  - a. Identify and address PS1 and PS7 gaps, including relevant GIIP, and strengthen capacity of the clients and sub-clients
  - b. Require clients to incorporate social performance criteria beyond loans approved or debts collected in incentive schemes for credit/collection officers and supervisors.
- 4. IFC should develop a client training program** to systematically strengthen grievance mechanisms at the client and sub-client level, with an emphasis on developing tools and capacity for dispute resolution that prevents threats, harassment, or reprisals against borrowers. In parallel, provide specialized training aligned with GIIP for credit and collection officers, covering proper assessment of repayment capacity, and understanding of IFC requirements regarding Indigenous Peoples and how to avoid harm in their lending and collection practices. IFC should require follow-up reporting on implementation.
- 5. IFC should work with clients to develop and implement financial empowerment programs** that: (i) build vulnerable borrowers’ understanding and capacity in engaging with BFIs, and (ii) develop accessible communication and loan information material for borrowers. Training should be tailored to local languages and literacy levels, and delivered by agencies or NGOs with established community presence. Content should include informed borrowing, risk of over-indebtedness, loan terms, grievance mechanisms, and borrowers’ rights, with the aim of enabling borrowers to make informed decisions and engage constructively with BFIs. As part of this effort, IFC should support client and sub-clients to develop loan documentation and borrower communications that are accessible, culturally appropriate, and presented in local languages to ensure informed consent and borrower understanding of rights and obligations.

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<sup>626</sup> Options for funding could include a blended model of donor contributions, MFI levies, and development partner support.

### Systemic-Level Recommendations

- 1. Develop capacity and tools, as well as leverage in-house expertise, to design and implement a process for use during project due diligence and supervision to comprehensively identify vulnerable groups and assess E&S impacts of investments involving microfinance.** This process should also evaluate the capacity and experience of its clients to meet GIIP requirements regarding vulnerable borrowers and Indigenous Peoples. During supervision, IFC should require FIs to include in, their annual monitoring reports, the profiles of a representative sample of micro-credit borrowers (e.g., with the loan amount and term, interest rates, repayment made, their financial vulnerability and levels of distress, and how the FI staff interact with the community). This would help IFC track borrower outcomes and ensure client alignment with the Performance Standards, GIIP, and relevant national law.
- 2. Incorporate standard covenants, with reporting requirements, on the fulfillment of GIIP regarding vulnerable borrowers in legal agreements for financial inclusion investments.** These GIIP standards should be binding requirements that the clients fulfill and report on in their E&S annual reports, and which IFC will monitor to verify their implementation.