

**MARCH 2025**

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## **Assessment Report**

Regarding the Ninth Complaint Received in Relation to IFC's investment in the Microfinance Enhancement Facility (MEF) (IFC Project #27827) in Cambodia

IFC/MIGA Project number: (IFC 27827)

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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 <http://www.cao-ombudsman.org/about-us>.



## List of Acronyms

CAO	Office of the Compliance Advisor Ombudsman
IAM	Independent Accountability Mechanism
IFC	International Finance Corporation
KfW	Kreditanstalt für Wiederaufbau
MEF	Microfinance Enhancement Facility
MFI	Microfinance Institution
MIGA	Multilateral Investment Guarantee Agency
MLF	Microfinance Liquidity Facility
NBC	National Bank of Cambodia
NPL	Non-Performing Loan
PRASAC	KB PRASAC Bank Plc
SEGR	Stakeholder Engagement and Grievance Redress

# 1 Executive Summary

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In June 2024, CAO received four complaints from four different individuals, all concerning the same project and sub-client. This report describes one of these complaints (Case number: Cambodia MEF-09), in relation to alleged predatory and deceptive lending practices in the Cambodian microfinance sector linked to IFC sub-client KB PRASAC Bank Plc (“PRASAC”), a microfinance institution (MFI) in Cambodia. At the time the complaint was filed, IFC had indirect financial exposure to PRASAC through their investment in the Microfinance Enhancement Facility (MEF) (IFC Project: MLF<sup>1</sup> #27827). PRASAC subsequently repaid their loan to MEF on 18 July 2024. There is an ongoing CAO compliance investigation regarding the practices of six financial institutions (four banks and two microfinance institutions) in Cambodia;<sup>2</sup> PRASAC is one of the six.

The complainant took out a loan from PRASAC in 2020, which he claims caused financial hardship, including a decrease in livelihood and negative impacts on his family's well-being. He alleges that PRASAC's deceptive lending practices, including threats and intimidation from staff and an ineffective mechanism to seek redress, have harmed him and his family. In October 2024, CAO determined that the complaint met its eligibility criteria and was not the same in all material respects as a complaint that had previously been submitted to the CAO.<sup>3</sup> Following the eligibility determination in October 2024, CAO began an assessment of the complaint.

During CAO's assessment of the complaint, the complainant and PRASAC expressed an interest in engaging in a CAO dispute resolution process to address the issues raised in the complaint. In accordance with the CAO Policy (paragraph 59, page 13),<sup>4</sup> the complaint will now be handled by CAO's Dispute Resolution function.

In response to the complainants' requests and the need to resolve sensitive financial and social issues affecting individuals and their households, the dispute resolution team will handle each of the four complaints received in June 2024 separately, while ensuring efficient and well-coordinated logistical arrangements for meetings to minimize the burden on the parties and avoid redundancy in the process.

This Assessment Report provides an overview of the assessment process, including a description of the project, the complaint, the assessment methodology, views of the parties, and next steps.

## 2 Background

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IFC had indirect financial exposure to KB PRASAC Bank Plc (“PRASAC”) through their investment in the Microfinance Enhancement Facility (MEF) (IFC Project: MLF #27827). The

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<sup>1</sup> Project #27827 originally appeared on IFC Disclosure as the Microfinance Liquidity Facility (MLF). The MLF was later renamed the Microfinance Enhancement Facility (MEF) and has since been renamed the Global Gender-Smart Fund (GGSF). IFC Disclosure: <https://disclosures.ifc.org/enterprise-search-results-home/27827>.

<sup>2</sup> Further information on this case can be found at <https://www.cao-ombudsman.org/cases/cambodia-financial-intermediaries-04>.

<sup>3</sup> Paragraph 42(i) of the CAO Policy on accepting the complaints that are materially different in all circumstances.

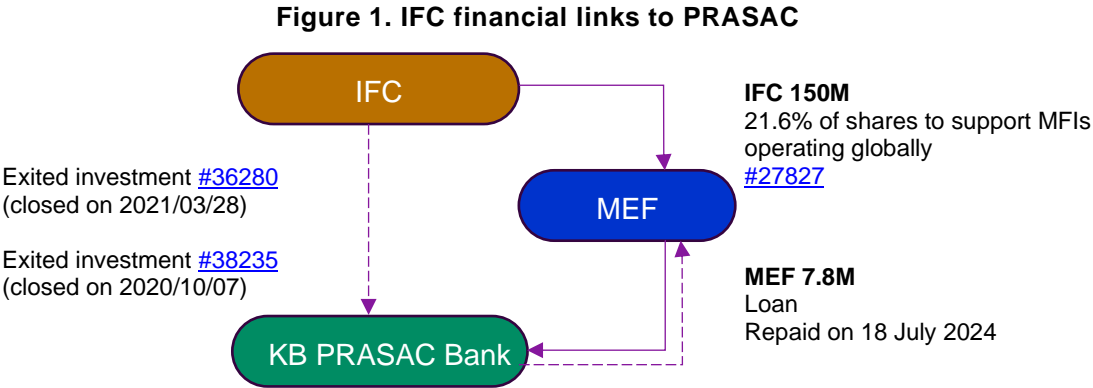
<sup>4</sup> CAO Policy: <https://www.cao-ombudsman.org/sites/default/files/documents/CAO%20Policy/ifc-miga-independent-accountability-mechanism-cao-policy.pdf>

MEF is a global microfinance liquidity facility launched by IFC, German development bank KfW, and the Development Bank of Austria (OeEB)<sup>5</sup> in response to the 2008/2009 liquidity crisis. Its aim is to provide short- and medium-term financing to microfinance institutions worldwide that are encountering difficulties in securing market financing. IFC invested USD 150M in B shares, resulting in a 21.6% equity ownership in MEF. The investment was approved in 2009 and categorized as FI under IFC’s previous 2006 Sustainability Policy.

As of 1 January 2024, MEF has been renamed the Global Gender-Smart Fund (GGSF), reflecting a changed mandate focused on gender-smart investing and responsible finance. Of its USD 150M shares in MEF, IFC converted USD 80M to shares in GGSF and received USD 70M in repayments. IFC now holds 23.1% of equity ownership in GGSF, alongside other founding shareholders KfW (which also manages a junior share investment from the German Federal Ministry of Economic Cooperation and Development, “BMZ”) and OeEB.

PRASAC received a loan of USD 7.8M from MEF and paid the loan off on 18 July 2024 (Figure 1. IFC financial links to PRASAC).

PRASAC<sup>6</sup> is a subsidiary of KB Kookmin Bank-Korea, a new commercial bank in Cambodia formed through the successful merger of PRASAC Microfinance Institution Plc and Kookmin Bank Cambodia Plc. PRASAC has a commercial license from the National Bank of Cambodia (NBC) and officially received its approval from the Ministry of Commerce (MoC) of Cambodia for banking operations in August 2023. PRASAC Microfinance Institution Plc was formerly a direct IFC client through two loans<sup>7</sup> designed to support the expansion of PRASAC’s microfinance, agricultural, and SME portfolio. IFC exited these investments in October 2020 and March 2021. The sub-client’s repayment transaction happened during the CAO’s eligibility determination stage.



### 3 Assessment Purpose & Methodology

#### 3.1 Assessment Purpose

<sup>5</sup> MEF is a special-purpose vehicle constituted in Luxembourg. [Webpage: https://www.meffund.com/mission.php](https://www.meffund.com/mission.php)  
<sup>6</sup> <https://www.kbprasacbank.com.kh/en/bank-overview/profile/>  
<sup>7</sup> <https://disclosures.ifc.org/project-detail/SII/36280/prasac-sr-loan-3>; and <https://disclosures.ifc.org/project-detail/SII/38235/prasac-ab-loan>

The aim of the CAO assessment process is to develop a thorough understanding of the issues and concerns raised by the complainant(s), gather information on the views of different stakeholders, and determine whether the complainant(s) and the IFC sub-client(s) would like to pursue a dispute resolution process facilitated by CAO, or whether the complaint should be handled by CAO’s Compliance function for appraisal of IFC’s performance standards (see Appendix A for CAO’s complaint-handling process).

CAO’s assessment process does not entail a judgment on the merits of the complaint; rather, it seeks to understand the parties’ perspectives and empower those involved to make informed decisions on how to address the issues raised.

### 3.2 Assessment Methodology

Figure 2 shows the approach and methodology to be applied in CAO’s assessment process.

**Figure 2. CAO Assessment Process**



The assessment was conducted by the CAO assessment team with the support of a local interpreter based in Cambodia, who assisted with Khmer translation and interpretation as needed. The CAO team and the interpreter communicated with the parties and collected information through in-depth virtual conversations and a December 2024 onsite mission.

## 4 Complainant’s Perspective

The complainant took a loan from PRASAC in 2020. He alleges that the loan caused significant hardship, including a decrease in livelihood and negative impacts on his family’s well-being. The complainant asserts that he has been harmed by PRASAC’s lending practices, which include providing a loan without adequately explaining the potential future risks associated with it, threats

and intimidation from PRASAC staff because of his inability to repay the loans, and an ineffective grievance redress mechanism to address his concerns. The issues raised by the complainant in his complaint and shared in-person with the CAO assessment team are explained below.

#### Decrease in livelihood

The complainant explained that he intended to use the loan to grow his pork retail business. However, during the COVID-19 pandemic, movement restrictions caused significant challenges, leading to the business's decline. He noted that initially he believed the loan would bring financial success, but it has instead worsened his situation. The complainant admitted that he lacked financial awareness and knowledge and that this was his and his wife's first business endeavor. He further shared with CAO that he believes banking institutions are meant to support businesses and serve community members, considering clients' financial hardships and challenging situations. However, he felt PRASAC did not respect and value him as a human being, and high-interest loans have driven people like him into debt.

#### Negative impacts on family's well-being

The complainant reported that the high-interest loan with unfavorable repayment terms has caused significant emotional distress for him and his family. His wife has been forced to work late hours to make ends meet, and their financial struggles have impacted their ability to properly care for themselves. According to the complainant, the high-interest loan from PRASAC has exacerbated his financial difficulties, impacting his ability to properly feed his family, including providing adequate formula milk for his children.

#### Threats and intimidation

The complainant alleges that PRASAC employees have made threats and used intimidation tactics, including pressuring him to sell his last remaining plot of land if he fails to repay the loan. The land is used to grow crops for his family's personal consumption, which is important for their livelihood and food supply. According to the complainant, while PRASAC has not directly instructed him to sell the land, the complainant feels intimidated by the bank's repeated suggestions that failure to repay would lead to the loss of his collateral.

As a result of these threats, the complainant said he changed the location of his residence to avoid further contact with PRASAC employees, who typically go to his home in a small group and exhibit intimidating behaviors. He shared with CAO that he fears PRASAC's employees may discover the location of his new home. He believes that PRASAC's employees could be more supportive and encouraging, given their professional expertise in banking. He emphasized the need for a more motivating approach, rather than one based on threats, as borrowers are not expected to have the same financial knowledge as the microfinancing institution.

When he submitted the complaint to CAO, the complainant requested that his personal information be kept confidential due to threats and intimidation. However, he agreed to disclose his information and the details of the complaint to PRASAC during the CAO's assessment trip in December 2024.

#### Unsuccessful efforts to resolve the situation

The complainant stated that he has made multiple requests to PRASAC to renegotiate the terms of his loan. However, PRASAC rejected his request for refinancing and pressured him to sell his last remaining plot of land to settle the debt. For example, according to the complainant, in August 2024, he requested to make interest-only payments, but the bank refused. PRASAC informed him that in order to qualify for an interest-only payment option, he would first need to pay three months' worth of both principal and interest. This was financially unfeasible for the complainant. The

complainant did not reach out to the National Bank of Cambodia (NBC) for assistance, as he believed the restructuring regulations applied only to businesses in the tourism sector in Siem Reap.

## 5 IFC/MIGA Client and/or Sub-client Perspective

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During the assessment phase, CAO engaged with IFC's client, MEF, and their sub-client, PRASAC. MEF's fund managers expressed their understanding and support for the CAO process and assisted the CAO assessment team in connecting with their former client, PRASAC.

In response to the concerns raised by the complainant related to threats and intimidation, PRASAC stated that it is challenging to respond to this issue without having detailed information on the individual borrower's situation. However, regarding the concerns raised on predatory lending and collection practices, PRASAC provided the following explanation of their policies and procedures.

### Loan restructuring policy

PRASAC shared with CAO that their policy allows the restructuring of loans with borrowers; currently, approximately 9.4% of their loan portfolio, equal to about 37,000 loans, has been restructured. PRASAC assured CAO that this restructuring process follows the regulations set by the National Bank of Cambodia (NBC) and explained that key aspects of the restructuring include loan extensions, where loans are extended by two years, during which borrowers pay only interest and all penalty fees are waived. Furthermore, PRASAC stated that in the post-extension period, borrowers resume paying both principal and interest, under the expectation of improved economic conditions. PRASAC also emphasized that requests for loan restructuring are generally accepted, although loans that are classified as non-performing loans (NPLs) are not targeted for restructuring. According to PRASAC, in some cases, borrowers may refuse to repay their loans, which is distinct from the restructuring process.

PRASAC stated that in times of economic hardship, borrowers have the option to negotiate repayment terms with their respective credit officers, tailored to their repayment capacity. If a borrower has been unable to make payments for over 179 days, their financial situation is discussed on a case-by-case basis with PRASAC staff to explore further options. PRASAC's loan recovery process involves direct visits to borrowers to understand their difficulties and to offer restructuring options or other negotiation solutions.

### Loan assessment and collateral

PRASAC explained that their loan assessment process involves evaluating both the borrower's repayment capacity and the collateral provided. While Cambodia operates as a "collateral market," where microfinance institutions commonly use collateral-based systems for loan approval, PRASAC prioritizes the borrower's ability to repay when approving loans. PRASAC indicated that they accept both types of land collateral, "soft" and "hard" titles. Soft titles are valued at 35% of the land's value and hard titles are valued at up to 50% of the land's value. The valuation of the collateral is generally assessed by PRASAC's credit officers, though in certain areas third-party entities may perform this assessment. PRASAC explained that it does not confiscate collateral, as only the court has the authority to seize property used as collateral. Collateral is used primarily as a disciplinary tool to ensure repayment.

### Borrower complaints and grievance redress

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PRASAC shared with the CAO assessment team that it provides several channels for borrowers to voice complaints, including a telephone hotline and a Facebook account. When a complaint is received, it is forwarded to the call center and then to the bank manager. Thereafter, the bank manager informs the credit officer, who visits the borrower to assess the situation.

#### Educational efforts

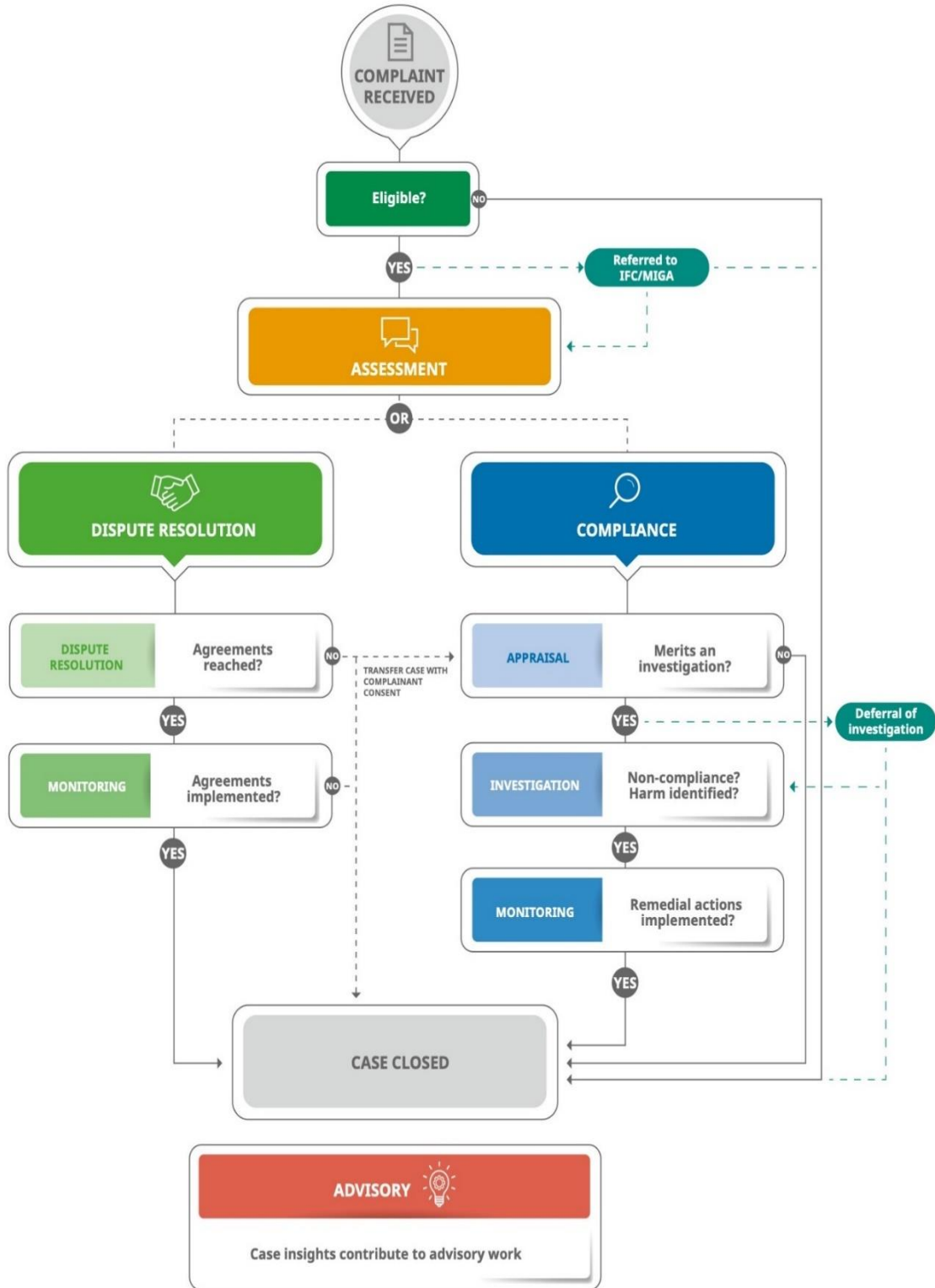
PRASAC stated that in addition to loan restructuring and recovery efforts, it is involved in educational and capacity-building initiatives. According to PRASAC, it has joined with the association of bank and microfinance to conduct training and workshops with local and national entities, to help borrowers improve their financial management skills, particularly related to how to use a loan from a formal bank or financial institution.

## **6 Conclusion & Next Steps**

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Both the complainant and PRASAC have agreed to participate in a dispute resolution process. CAO will therefore transfer the complaint to CAO's Dispute Resolution function, as per CAO's Policy. CAO will facilitate the dialogue process, including assisting the parties in preparing for dialogue, agreeing on ground rules and the scope of the dialogue, and working together in a collaborative way to try to reach a resolution of the issues raised in the complaint and summarized in this Assessment Report.

# Appendix A: CAO Complaint-Handling Process



As per the IFC/MIGA Independent Accountability Mechanism (CAO) Policy, the following steps are typically followed in response to a complaint that is received:

- Step 1: **Acknowledgment** of receipt of the complaint.
- Step 2: **Eligibility:** A determination of the complaint's eligibility for assessment under the mandate of CAO (no more than 15 business days).
- Step 3: **Assessment:** Assessing the issues and providing support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 90 business days, with the possibility of extension for a maximum of 30 additional business days if after the 90-business day period (1) the parties confirm that resolution of the complaint is likely or (2) either Party expresses interest in dispute resolution, and there is potential that the other Party will agree.
- Step 4: **Facilitating settlement:** If the parties choose to pursue a collaborative process, CAO's Dispute Resolution function is initiated. The dispute resolution process is typically based on or initiated by a Memorandum of Understanding and/or mutually agreed-upon ground rules between the parties. It may involve facilitation/mediation, joint fact finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goals. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the parties affected.

OR

**Compliance Appraisal/Investigation:** If the parties opt for an investigative process, the complaint is transferred to CAO's Compliance function. The complaint is also transferred to the Compliance function when a dispute resolution process results in partial or no agreement. At least one Affected Community Member must provide explicit consent for the transfer, unless CAO is aware of concerns about threats and reprisals. CAO's Compliance function reviews IFC/MIGA's compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate following a three-step process. First, a compliance appraisal determines whether further investigation is warranted. The appraisal can take up to 45 business days, with the possibility of extending by 20 business days in exceptional circumstances. Second, if an investigation is warranted, the appraisal is followed by an in-depth compliance investigation of IFC/MIGA's performance. An investigation report will be made public, along with IFC/MIGA's response and an action plan to remediate findings of noncompliance and related harm. Third, in cases where noncompliance and related harm are found, CAO will monitor the effective implementation of the action plan.

Step 5: **Monitoring and Follow-up**

Step 6: **Conclusion/ Case Closure**



The Independent Accountability Mechanism for IFC & MIGA