

**INTERNATIONAL FINANCE CORPORATION**

**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)**

**CAMBODIA**

**June 29, 2023**

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## ABBREVIATIONS AND ACRONYMS

ABC	The Association of Banks in Cambodia
ACLEDA	ACLEDA Bank Plc.
Advans	Advans SA SICAR
AMRET	Amret Microfinance Institution Plc.
BMZ	German Federal Ministry for Economic Cooperation and Development
CAO	Office of the Compliance Advisor Ombudsman
CGAP	Consultative Group to Assist the Poor
CMA	Cambodia Microfinance Association
CPF	Country Partnership Framework
CSO	Civil Society Organization
E&S	Environmental and Social
EC	Equitable Cambodia
FCP	Financial Consumer Protection
FI	Financial Institution
GPIFI	Global Partnership for Financial Inclusion
HKL	Hattha Kaksekar Limited
HTB	Hattha Bank Plc.
IFC	International Finance Corporation
LICADHO	Cambodian League for the Promotion and Defense of Human Rights
LOLC	LOLC (Cambodia) Plc.
MEF	Microfinance Enhancement Facility S.A., SICAV-SIF
MFI	Microfinance Institution
MIFA	Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF
NBC	National Bank of Cambodia
North Haven	North Haven Thai Private Equity L.P.
PRASAC	Prasac Microfinance Institution Plc.
RFF	Responsible Finance Forum
Sathapana	Sathapana Bank Plc.
WBG	World Bank Group

## EXECUTIVE SUMMARY

- I. On June 14, 2023, pursuant to paragraph 104 of the CAO Policy, CAO circulated its compliance appraisal report on a complaint involving six financial institutions in Cambodia, which are current and former IFC clients or sub-clients, which concluded that CAO would proceed to conduct a compliance investigation of IFC's investments in these institutions.
- II. Management believes that the CAO compliance appraisal report does not meet technical criteria c) of paragraph 109 of the CAO Policy and, pursuant to paragraph 107, requests a Board review of CAO's decision to investigate.
- III. This is because the issues of consumer protection raised in the complaint fall outside of the scope of IFC's E&S Policies as defined in the CAO Policy, and therefore outside the scope of CAO's investigation mandate. The grievances of the complainants in the present case do not pertain to factors that are covered by or required to be assessed by IFC's Sustainability Framework. CAO's decision to investigate in the current case does not meet the CAO's investigation mandate because it is not based on a non-compliance by IFC of its E&S Policies.
- IV. Consumer protection is central to IFC's commitment to financial inclusion and is core to IFC's investments in microfinance institutions. IFC supports its clients and sub-clients in progressively developing and strengthening responsible lending practices through financial due diligence and monitoring and Advisory Services. However, CAO's mandate for compliance investigation does not extend to IFC's broader socioeconomic programs, strategies, and tools for risk management in the financial sector.
- V. This request for Board review is based on the criteria set out in the CAO Policy. However, Management's request for a Board review in the current case is not meant in any way to derogate from the terms of the IFC Management Response, in particular IFC's willingness: a) to review the issues raised in the complaint outside the CAO compliance investigation process and IFC's Sustainability Policy with other relevant stakeholders active in Cambodia; and b) to continue to promote the implementation of the standards and instruments that IFC helped to develop, such as Good International Industry Practice for Responsible Investment.

## I. INTRODUCTION

1. In February 2022 a complaint (the Complaint) was lodged with the Office of the Compliance Advisor Ombudsman (CAO) concerning IFC projects and sub-projects with ACLEDA Bank Plc. (ACLEDA), Hattha Bank Plc. (HTB), and Amret Plc. (AMRET), and IFC sub-projects with LOLC (Cambodia) Plc. (LOLC), Prasac Microfinance Institution Plc. (PRASAC), and Sathapana Bank Plc. (Sathapana) (together, six Financial Institutions, or FIs) in Cambodia. The IFC projects are or have been financed directly by IFC, and the IFC sub-projects are or have been financed by Microfinance Enhancement Facility S.A., SICAV-SIF (MEF), Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF (MIFA), Advans SA SICAR (Advans), and North Haven Thai Private Equity L.P. (North Haven).

2. The Complaint was filed by two local civil society organizations (CSOs) – the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC) – on behalf of a group of individual borrowers residing in Cambodia (the Complainants).<sup>1</sup> The Complaint alleges negative social impacts of the FIs’ debt collection activities, which allegedly led to loss of land, loss of livelihood, food insecurity, threats to health, and child labor, as well as negative impacts on indigenous peoples.

3. CAO submitted its Compliance Appraisal Report to the Board on June 14, 2023. CAO argues that the complaint meets the three criteria for a compliance investigation, including that there are preliminary indications that IFC may not have complied with its E&S Policies. Specifically, “CAO concludes that impacts on microfinance borrowers are covered by the IFC E&S Policies,” including because “*The Sustainability Framework applies to all IFC projects and their E&S impacts, unless specifically excluded*” and “*There is no such exclusion or limitation regarding impacts on financial consumers or microfinance borrowers in IFC’s Sustainability Policy or Performance Standards (PS).*”<sup>2</sup>

4. IFC has clarified its position on these issues in its Management Response (attached as Annex C) - that IFC’s Environmental and Social Sustainability Policy (the Sustainability Policy) and Performance Standards on Environmental and Social Sustainability (the Performance Standards) 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. This is not an oversight but a considered decision, and one that all other major development finance institutions are also aligned on - risks related to consumer protection are not included in E&S policies but addressed through broader social protection strategies and collaborations, such as those highlighted below.

5. Protections for individual borrowers are addressed under IFC’s Financial Inclusion and Consumer Protection Strategy, specifically through its Client Protection and Responsible Finance Principles (See Appendix B).<sup>3</sup> As CAO rightly points out, IFC has been at the forefront of developing and implementing global standards for FCP and supports its clients and sub-clients in progressively developing and strengthening responsible lending practices through specific development impact targets and respective financial due diligence and monitoring.

6. IFC believes that continued engagement specifically in the Cambodian financial sector is important at both institutional and sectoral levels to further influence responsible finance and consumer protection

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<sup>1</sup> Out of fear of reprisals CAO keeps identity and information of complainants confidential. To date, CAO has not provided information on the magnitude of the alleged malpractices, as the number of Complainants is not disclosed. Neither is information on which IFC clients are accused of which practices.

<sup>2</sup> CAO Appraisal Report, p. 9.

<sup>3</sup> For further information see the [WBG’s Strategy for Financial Inclusion and Consumer Protection](#).

practices and therefore is proposing specific actions to address the issues raised in the complaint, outside of the CAO compliance investigation process and mandate.

7. After presenting the request for review and relevant criteria (Section II), IFC: a) clarifies why the relevant criterion under the CAO Policy is not met by articulating the scope of IFC's E&S Policies and responding to CAO's arguments (Section III), b) presents IFC's work on Financial Consumer Protection outside the Sustainability Framework (Section IV), and c) describes the actions that IFC is undertaking to address the issues raised in the complaint as part of this work (Section V). The Annexes offers a more detailed response to the arguments put forward in the CAO appraisal report.

## II. REQUEST FOR BOARD REVIEW

25. The CAO Policy provides that "*in exceptional circumstances, where Management believes any of the technical review criteria below have not been met, Management represented by the Managing Director and the Executive Vice President of IFC, may request the Board to review the CAO DG's decision to investigate.*"<sup>4</sup> The Board will then, in turn, "*review the decision to investigate based solely*" on a set of technical criteria, with such criteria including "*c. Does the CAO compliance appraisal report include consideration of whether there are preliminary indications that IFC/MIGA may not have complied with its E&S Policies.*"<sup>5</sup>

26. IFC is of the view that criterion (c) has not been met. As explained further in Section III, consumer protection does not fall within the CAO Policy definition of E&S Policies, which are: "*(i) The Policy on Environmental and Social Sustainability of IFC or MIGA as applicable; (ii) the Project-specific provisions of the Access to Information Policy of IFC or MIGA as applicable; and (iii) any other Board-approved environmental and social commitments for Projects.*"<sup>6</sup> The WBG's approach to financial inclusion and consumer protection, including any legal requirements for clients related to FCP, are not E&S Policies as defined by the CAO Policy. While the Complainants allege that there are gaps in IFC's E&S framework with respect to microfinance activities,<sup>7</sup> it is important to note that as per the CAO Policy, it is neither CAO's function nor mandate to assess the adequacy of IFC's E&S policies.<sup>8</sup>

27. The proposed CAO investigation is therefore outside of the CAO's compliance mandate defined in the CAO Policy. It is not related to an exercise of discretion of the CAO DG and is an appropriate case for the Board to review the decision to investigate.

28. An investigation outside of the scope of E&S Policies and CAO's compliance mandate, would not enhance E&S outcomes of IFC Projects or enhance the E&S performance of IFC under the Sustainability Framework therefore would not be consistent with the CAO's own policy.

29. As further explained in Section V, IFC will continue to address the important issues raised in the complaint within its current framework, separate from the Sustainability Framework.

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<sup>4</sup> CAO Policy, para. 107.

<sup>5</sup> CAO Policy, para. 109(c).

<sup>6</sup> CAO Policy Glossary.

<sup>7</sup> CAO Assessment Report, p.8.

<sup>8</sup> Paragraph 77 of the CAO Policy provides "CAO's compliance function does not evaluate the adequacy or suitability of E&S Policies."

### III. REQUIREMENTS OF THE IFC SUSTAINABILITY FRAMEWORK

17. The IFC Sustainability Framework (SF) consists of the Sustainability Policy, Performance Standards, and Access to Information Policy. The Sustainability Policy focuses on managing potential environmental and social (E&S) impacts and risks on surrounding community and workers resulting from the business activity to be supported by IFC.<sup>9</sup> With respect to FIs, the business activity IFC supports through its FI clients and sub-clients is the business activity resulting from the end use of proceeds of loans by sub-borrowers (for example, loans for individual consumption purposes or loans to purchase inputs for small-scale agriculture or to finance small-scale trade activities).

20. The IFC E&S Policies are focused on managing E&S risks and potential impacts of projects (in the case of FI transactions, sub-projects) and do not regulate or monitor general socioeconomic risks of IFC operations. Customers or consumers of a client's products or the recipients of loans are not referenced in the Policy on Environmental and Social Sustainability or Performance Standards as a category of stakeholder to which E&S risk mitigation measures should apply.<sup>10</sup> The Policy on Environmental and Social Sustainability does not apply to sub-borrowers who voluntarily sought loans but were unable to repay.

19. The Sustainability Policy instead applies in a different way. When IFC prepares or monitors investments, it assesses the E&S risks and impacts a project could have on the environment, communities and workers and then requires its clients to apply the relevant E&S requirements to the project. When IFC invests in FIs, it requires its FI clients to develop and operate an Environmental and Social Management System (ESMS) in instances where the prospective portfolios to be financed by IFC present E&S risks. The scope and complexity of the ESMS should be commensurate with the level of E&S risk associated with the asset class supported. Given that the E&S impact of sub-projects supported by microcredit institutions (the business activity resulting from the end use of proceeds of loans by sub-borrowers) is minimal, such transactions are categorized as FI-3. FI-3 clients are required to apply the IFC Exclusion List and relevant national E&S laws (which are bound by the thematic scope of the PSs, and therefore do not include consumer protection), and to implement a simple E&S screening procedure.<sup>11</sup>

20. In its compliance appraisal report, CAO argues that impacts on microfinance borrowers are covered by the IFC's E&S Policies because *"There is no such exclusion or limitation regarding impacts on financial consumers or microfinance borrowers in IFC's Sustainability Policy or Performance Standards (PS)"*.<sup>12</sup> The scope of the Sustainability Framework in managing risks of projects and sub-projects on workers and affected communities is clearly defined. There are other frameworks that address the range of risks that manifest in IFC projects and sub-projects. See Annex A for detailed responses to CAO's arguments.

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<sup>9</sup> Policy on Environmental and Social Sustainability, para 3, footnote 2.

<sup>10</sup> 2012 Sustainability Policy (para 3, footnote 2) refers to environmental and social impacts as any change, potential or actual, to (i) the physical, natural, or cultural environment and (ii) impacts on "surrounding community and workers", resulting from the business activity to be supported. "Surrounding community and workers" are stakeholders considered when assessing potential environmental and social impact. Performance Standard 1 also specifies "other stakeholders" (beyond surrounding community and workers) as national and local authorities, neighboring projects, and/or nongovernmental organizations (para 1, footnote 1)). This scope is aligned with the UN Guiding Principles for Business and Human Rights that have the objective to 'achieve tangible results for affected individuals and communities.

<sup>11</sup> Policy on Environmental and Social Sustainability, para 35, footnote 7. Such screening is considered to constitute an ESMS that is commensurate with the minimal level of E&S risk in these transactions.

<sup>12</sup> CAO Appraisal Report, p.26.

21. Not including consumers and financial consumer protection within the scope of IFC's E&S Policies is not an oversight, but a considered decision to address these important issues through a separate approach (see Section IV), consistent with international good practice. All major DFIs are aligned with IFC's approach to consumer protection: risks related to consumer protection are not included in E&S policies but addressed through broader social protection strategies and collaborations.<sup>13</sup>

22. CAO's interpretation in its compliance appraisal report that all E&S issues fall within the scope of the SF presents a significant departure from practice to date. This interpretation would in effect extend IFC's role from managing E&S impacts and risks of projects to managing and monitoring any socioeconomic risks in the financial sector as well as monitoring compliance of IFC development impact targets as such, which is neither the spirit nor the letter of the Sustainability Policy and is separately dealt with by IFC. It is IFC's view that CAO's interpretation is expansionary and unwarranted and could undermine the feasibility and integrity of IFC E&S risk management and the effective implementation of the CAO Policy in the future.

#### IV. FINANCIAL CONSUMER PROTECTION

8. CAO acknowledges the WBG's, including IFC's, crucial role in developing and supporting the global microfinance industry in ending extreme poverty and boost shared prosperity.<sup>14</sup>

9. In 2009, IFC was a co-founder of the Responsible Finance Forum (RFF) together with other Development Finance Institutions (DFIs) and the wider G20 Global Partnership for Financial Inclusion (G20/GPFI) community.<sup>15</sup> In 2011, IFC together with its partners outlined a three-pillar framework for responsible finance that has been adopted globally:

- Consumer Protection: a regulatory framework for financial consumer protection, at both national and international levels.
- Responsible Providers: voluntary commitments, practices, standards, and initiatives in the financial sector (individually and at industry level, nationally and internationally); and
- Financial Capability: interventions aimed to build and enhance the financial capability of financial institutions clients – the consumers of financial products and services.<sup>16</sup>

10. In 2015, the WBG created joint global practices to strengthen its effort in FCP and continues to develop technical guidance, country reports, and tools for policymakers, regulators, development partners, and other experts. The World Bank's Global Financial Inclusion & Consumer Protection Survey benchmarks efforts by financial sector authorities to improve the enabling environment for FCP in 141 countries.<sup>17</sup>

11. As part the appraisal process, IFC investment teams conduct dedicated assessment to verify that its investees meet appropriate standards for consumer protection and are committed to promoting fair and transparent pricing, prevent over-indebtedness, strengthen digital literacy, enhance customer services for

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<sup>13</sup> For further information, please see the [WG ESF](#), [EBRD ESP](#), [IDB ESPF](#), [IDB Invest ESSP](#), [AIIB ESF](#), and [ADB SPS](#).

<sup>14</sup> CAO Appraisal Report, p.11.

<sup>15</sup> For a history of the RFF, please see <https://globalrff.org/history-of-rff>.

<sup>16</sup> See BMZ/CGAP/IFC, 2011, [Advancing Responsible Finance for Greater Development Impact](#).

<sup>17</sup> See World Bank, 2017, [Global Financial Inclusion and Consumer Protection \(FICP\)](#).

problem resolution, and ensure data privacy and security.<sup>18</sup> The World Bank’s recent Guidance Note on Developing a Risk-based Approach to Financial Consumer Protection Supervision provides additional guidance on addressing the risk of indebtedness, financial literacy, and vulnerability.<sup>19</sup> In summary, IFC supports its clients in progressively developing and strengthening responsible lending practices through among other tools, promoting and implementing the Client Protection Standards and Principles, which CAO characterizes as Good International Industry Practice (GIIP).<sup>20</sup>

12. IFC routinely incorporates affirmative covenants requiring compliance with the Client Protection and Responsible Finance Principles, which cover avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, grievance redress mechanism, and/or data privacy protection, in its loan agreements with relevant clients.<sup>21</sup>

13. Microfinance plays a critical role in Cambodia in reducing poverty, supporting livelihoods, and creating jobs, especially as the economy emerges from the strains of COVID-19. Therefore, in addition to its global efforts, IFC has continuously worked to strengthen responsible finance practices in Cambodia specifically, and beyond individual investments, with a focus on managing the risk of indebtedness and financial inclusion of Indigenous Peoples.

14. At the sector level, IFC has worked with NBC since 2006 to build the Credit Bureau Cambodia (CBC), the country’s first credit bureau and a source of transparency and information for credit reporting as well as a tool to reduce the risk of borrowers’ over-indebtedness; IFC has collaborated with the Cambodian Microfinance Association (CMA), the CBC, and the SMART Campaign<sup>22</sup> to promote the Lending Guidelines – an initiative established to reduce the risk of the credit market overheating; and has implemented an insolvency and debt resolution upstream project, which covers non-performing loan management and debt resolution, to strengthen fair and transparent debt collection practices.

15. IFC provides Advisory Services specifically to the FIs named in the Complaint, including on helping them transform from nongovernmental organizations to commercial microfinance institutions (MFIs) and to commercial banks, improving corporate governance and risk management capacity, and raising the standards of their responsible finance practices. IFC is also implementing an initiative to assess the responsible finance practices of IFC clients and assist them in making time-bound improvements.<sup>23</sup>

16. Against this backdrop, with respect to the issues raised in the Complaint, IFC is committed to reviewing them with other relevant stakeholders active in Cambodia, such as the World Bank, NBC, CMA,

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<sup>18</sup> See IFC [AIMM Sector Framework Brief, 2019, Microfinance and Digital Finance Services](#).

<sup>19</sup> World Bank, Finance, Competitiveness & Innovation Global Practice, 2022, [Developing a Risk-based Approach to Financial Consumer Protection Supervision](#).

<sup>20</sup> CAO Appraisal Report, Appendix 3, p.43.

<sup>21</sup> The three IFC clients referenced in the Complaint include ACLEDA, AMRET and HTB. IFC does not have direct agreements with sub-clients. IFC 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).

<sup>22</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. CAO acknowledges this initiative as GIIP.

<sup>23</sup> IFC has been working on a responsible finance initiative in Cambodia (Cambodia RF #606119) since April 2021, which assesses its FI clients’ responsible finance practices, assists its clients to make time-bound improvements and enables IFC’s FI clients to continue providing sustainable financing solutions to their customers.

the Association of Banks in Cambodia (ABC), and other multilateral DFIs, as part of continuing to implement the standards and instruments IFC actively supports.<sup>24</sup>

## V. IFC ACTIONS

30. Even though those issues are outside the CAO compliance investigation mandate, as recognized by the complainants<sup>25</sup> themselves, IFC is committed to addressing the concerns and allegations raised in the complaint, which pertain to responsible finance and financial consumer protection practices, along with other relevant stakeholders active in Cambodia, such as the World Bank, NBC, CMA, ABC, and other multilateral DFIs.

31. To this end, IFC presented a set of actions in its Management Response (See Annex C) and remains committed to pursuing the following approaches and activities, outside of the CAO's compliance process. IFC will report directly to the Board on the implementation of these actions within 12-18 months.<sup>26</sup>

### ***Project-specific irregularities alleged in the Complaint:***

- Assess whether any irregularities related to responsible finance principles in loans provided to the Complainants occurred (to the extent that relevant information on individual Complainants is shared with IFC) and, jointly with the FI clients, define any improvements necessary to avoid such irregularities in the future.
- In instances where IFC ascertains that such irregularities related to responsible finance principles occurred, work with its client(s) to address them at the level of individual borrowers, as appropriate.

### ***Reprisals Risk:***

- Continue to engage with and train IFC's clients and sub-clients on preventing, managing, and addressing the risk of reprisals. IFC will build on the training provided on this topic to AMRET, HTB, and PRASAC in November 2022 to improve their capacity to address reprisals. In addition, IFC is looking to provide similar training and guidance to the remaining clients and sub-clients involved in the Complaint, as well as extending these sessions to the rest of the industry by partnering with the NBC and CMA. Supportive of the Complainants' request for confidentiality,

### ***IFC approach to responsible finance:***

- Open a public consultation on the IFC approach to responsible finance, as reflected in the Client Protection and Responsible Finance Principles, including specific conditions for disclosure of relevant loan-related information to borrowers. The consultation period would be open for 45 days, during which relevant parties in Cambodia, including the Complainants, would be able to provide their comments.

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<sup>24</sup> As described in the Management Response, IFC offered a public consultation on IFC's approach to responsible finance, as reflected in the Client Protection and Responsible Finance Principles in Cambodia. IFC would also engage the Cambodian Government in designing a FCP regulation to address any existing shortcomings at the sector level. IFC has also taken immediate and continuous action to address reprisal allegations including delivering tailor made trainings to IFC clients on managing the risk of reprisals as financial institutions.

<sup>25</sup> In the original complaint submitted to CAO, complainants criticize the IFC clients' and sub-clients' implementation of the SMART Principles.

<sup>26</sup> The proposed actions will be implemented through the WBG's joint Global Practice on Financial Inclusion. IFC would not be able to offer similar actions responding to the findings and recommendations of a CAO compliance investigation on alleged non-compliances of the SF and the related IFC organizational architecture for E&S risk management. Contrary to the 1-year timeframe for a compliance investigation set out in the CAO Policy, CAO proposes 18 months of investigation before any findings and recommendations and grievance response to the complaint can be expected.

- Amend the approach to responsible finance within six months from the end of consultations, in response to the consultation findings.
- Publish the approach to responsible finance and apply the revised version as a standard condition of financing for all microfinance lending in Cambodia.

***FCP regulation in Cambodia:***

- Engage the Cambodian Government in designing FCP regulation to address any existing shortcomings at the sector level. This may include addressing implementation of the enhancements as described in the Cambodian NFIS.

32. IFC welcomes any engagement with and participation of the Complainants and their representatives in the above activities to inform and strengthen responsible lending practices, while remaining supportive of their request for confidentiality.

## **VI. CONCLUSION**

33. Microfinance plays a critical role in Cambodia in reducing poverty, supporting livelihoods, and creating jobs, especially as the economy emerges from the strains of COVID-19.

34. The alleged harms in the current Complaint are not the result of non-compliance with the IFC E&S Policies. IFC believes that a compliance investigation of this particular case would not be consistent with CAO's mandate as set out in the CAO Policy. Rather, it would lead to a material expansion of CAO's function and compliance mandate. CAO's investigation would in effect expand the requirements under the IFC's Policy on Environmental and Social Sustainability and Performance Standards to include consumer protection that IFC and other DFIs have purposefully never included as part of their E&S Policies. It is not the mandate of the CAO compliance function to evaluate the adequacy or suitability of IFC's E&S Policies.

35. IFC believes that the technical review criteria for a CAO compliance investigation are not met and requests the Board to review the CAO decision to investigate in accordance with the paragraphs 107-111 of the CAO Policy. Pursuant to paragraph 110 of the CAO Policy, the Board may decide to affirm CAO DG's decision to investigate or not.

## ANNEX A – IFC RESPONSE TO CAO APPRAISAL REPORT

The table below provides detailed clarifications on the interpretations of the IFC Sustainability Framework and rationales put forward in the CAO Appraisal Report.

CAO Appraisal Report	IFC Response
<p>“The Sustainability Framework is clear that it applies to all projects and their E&amp;S impacts unless specifically excluded” (p. 25).</p>	<p>The Sustainability Framework applies to all projects, but the E&amp;S requirements depend on the nature of financing and level of E&amp;S risk associated with the financed project. When IFC invests in financial intermediaries (FIs), it requires its FI clients to develop and operate an Environmental and Social Management System (ESMS) in instances where the prospective portfolios to be financed by IFC present E&amp;S risks. The scope and complexity of the ESMS should be commensurate with the level of E&amp;S risk associated with the asset class supported. Given that the E&amp;S impact of sub-projects supported by microcredit institutions is minimal such transactions are categorized as FI-3. FI-3 clients are required to apply the IFC Exclusion List and relevant national E&amp;S laws and implement a simple E&amp;S screening procedure. Such screening is considered to constitute an ESMS that is commensurate with the minimal level of E&amp;S risk in these transactions.</p> <p>The question of whether financial consumer protection should be included in the scope of any update to the Sustainability Framework is debatable, but in any case, <u>is out the scope of the CAO’s current compliance investigation mandate</u>: “CAO’s compliance function does not evaluate the adequacy or suitability of E&amp;S Policies” (CAO Policy, para 77).</p>
<p>“There is no specific exclusion or limitation in the Sustainability Framework regarding impacts on consumers or microfinance borrowers” (p. 26).</p>	<p>The scope of the Sustainability Framework is the E&amp;S impacts and risks related to <u>the end use of proceeds of IFC financing</u> (business activities), not the impacts on the borrowers themselves resulting from loans they voluntarily sought but cannot repay.</p>
<p>“IFC’s E&amp;S Policies apply to all project E&amp;S impacts, even those not specifically mentioned in the Policies” (p. 26).</p>	<p>IFC E&amp;S Policies require <u>assessment</u> of all E&amp;S impacts and risks <u>related to the end use of proceeds of IFC financing</u>. These impacts and risks should be <u>managed</u> according to the issues and requirements set out in the respective PSs.</p> <p>As explained in the Management Response, the term “project” refers to a defined set of business activities, including those where specific physical element aspects, and facilities likely to generate risks and impacts, have yet to be identified. With respect to financial intermediaries, the <i>business activity</i> IFC supports through its FI clients and sub-clients is the business activity resulting from the use of proceeds of loans by sub-borrowers (for example, loans for individual consumption purposes or loans to purchase inputs for small-scale agriculture or to finance small-scale trade activities).</p>

	<u>The Sustainability Policy does not apply to impacts on sub-borrowers</u> resulting from loans they voluntarily sought but cannot repay.
“Exclusion of microfinance borrowers from the scope of IFC’s E&S Policies does not have a strong basis in the Policies” (p. 26).	Microfinance borrowers are not excluded from the scope of E&S policies as individuals or communities who can be affected by others’ activities, but they are excluded from the assessment of E&S impacts and risks arising from <u>their own agency as recipients</u> of loans.
“The impacts alleged by the complainants are social in nature and fall within the scope of IFC’s E&S Policies” (p. 27).	All social impacts of a development project do not fall automatically within the scope of IFC’s E&S Policies. E.g., disparities in distribution of development benefits, micro and economic impacts, integrity, corruption, data privacy, etc., are all arguably social impacts which fall outside the SF.
“IFC guidance states that the project impact assessment process under PS1 should cover the ‘full scope of risks and impacts’ associated with a project including any ‘unique impacts’ not specifically covered by PS 2 through 8 (IFC Guidance Note to PS1, paras. 16 and 17).” <sup>27</sup>	The provided reference covers aspects associated with IFC direct investments that also do not cover aspects related to consumer protection.
“These projects are designed to provide credit to poor and vulnerable households, who are groups that may be differentially or disproportionately affected due to their disadvantaged or vulnerable status” (pp. 27-28)	There is no logical implication of this statement regarding applicability of the SF. PS1, which requires identifying and addressing risks and impacts on workers and affected communities, applies in relation to the end use of proceeds of IFC financing, not on the borrowers themselves.  Following CAO’s logic the SF would apply to all IFC aspects of investments and their development impact, since IFC’s mission is to reduce poverty and create prosperity.
“These projects allegedly impact Indigenous communities, with the result that specific requirements under PS7 and the IFC Exclusion List may apply” (p. 28).	The Exclusion List relates to “ <u>Production or activities</u> that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.” Production or activities are those <u>financed by the end use of the proceeds</u> .
“The Sustainability Framework requires IFC to ensure compliance with national law, which includes regulations for financial consumer protection applicable to these projects” (p. 28).	The SF requires “FIs to follow <u>respective</u> national law.” Each legal agreement defines such law national laws specifically in reference to thematic coverage of the PSs. So, in the context of E&S risk management it’s about relevant E&S laws not all laws. For example, anti-corruption norms included in national laws may be relevant to IFC operations, but they are not covered under the SF.

<sup>27</sup> CAO Appraisal Report, p. 9.

	<p>The fact that there are in country regulations for financial consumer protection <u>does not imply</u> that these regulations are covered in the Sustainability Framework.</p>
<p>“IFC project documentation is not fully consistent with IFC’s conclusion that its E&amp;S Policies do not apply to microfinance borrowers. A preliminary review of the documentation for the 13 projects involved in this case found that risks and impacts on borrowers have in some cases been considered part of the clients’ E&amp;S management systems” (p.29).</p>	<p>The fact that in some cases MFIs have voluntarily included consumer financial protection in their own ESMS, which is not an IFC requirement under the SF, does not imply anything about the scope of the Sustainability Framework.</p>

## ANNEX B - CLIENT PROTECTION AND RESPONSIBLE FINANCE PRINCIPLES

The below is an example of Client Protection and Responsible Finance Principles included in IFC's loan agreements with FI clients on loans to support the FIs' microfinance business. These affirmative covenants are outside of the scope of the IFC E&S Policies and are not Board-approved environmental and social commitments for Projects.

*Apart from compliance with consumer protection practices laid down by the Central Bank, or any other regulatory or supervising entity and other statutory bodies, the Borrower shall also ensure that it is fully transparent in the pricing, terms, and conditions of all financial products. The Borrower shall employ respectful collection practices and adopt high ethical standards in the treatment of clients. The following Client Protection Principles are the minimum standards that the Borrower shall adhere to while providing financial services to its clients:*

- *Avoidance of Over-Indebtedness. The Borrower will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put the clients at significant risk of over-indebtedness. Similarly, the Borrower will take adequate care that only appropriate non-credit financial products (such as insurance) are extended to clients.*
- *Transparent and Responsible Pricing. The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients. Responsible pricing means that pricing, terms, and conditions are set in a way that is both affordable to clients and sustainable for financial institutions.*
- *Appropriate Collections Practices. Debt collection practices of the Borrower will be neither abusive nor coercive.*
- *Ethical Staff Behavior. Staff of the Borrower will comply with high ethical standards in their interactions with its clients, and such providers will ensure that adequate safeguards are in place 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 (while recognizing that the Borrower can play an important role in helping clients achieve the benefits of establishing credit histories).*

**ANNEX C - IFC MANAGEMENT RESPONSE**

Please see below IFC's Management Response submitted to CAO on November 21, 2022.

**INTERNATIONAL FINANCE CORPORATION**

**MANAGEMENT RESPONSE  
TO 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)**

**CAMBODIA**

**November 21, 2022**

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## ABBREVIATIONS AND ACRONYMS

ABC	The Association of Banks in Cambodia
ACLEDA	ACLEDA Bank Plc.
Advans	Advans SA SICAR
AMRET	Amret Microfinance Institution Plc.
CAO	Office of the Compliance Advisor Ombudsman
CMA	Cambodia Microfinance Association
CPF	Country Partnership Framework
CSO	Civil Society Organization
E&S	Environmental and Social
EC	Equitable Cambodia
FCP	Financial Consumer Protection
FI	Financial Institution
FY	Financial Year
HKL	Hattha Kaksekar Limited
HTB	Hattha Bank Plc.
IFC	International Finance Corporation
LICADHO	Cambodian League for the Promotion and Defense of Human Rights
LOLC	LOLC (Cambodia) Plc.
MEF	Microfinance Enhancement Facility S.A., SICAV-SIF
MFI	Microfinance Institution
MIFA	Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF
MSMEs	Micro, Small and Medium Enterprises
NBC	National Bank of Cambodia
NFIS	National Financial Inclusion Strategy
North Haven	North Haven Thai Private Equity L.P.
PRASAC	Prasac Microfinance Institution Plc.
Sathapana	Sathapana Bank Plc.
SMEs	Small and Medium Enterprises
US\$	United States Dollar
WBG	World Bank Group
WMSMEs	Women-owned Micro, Small and Medium Enterprises
WSMEs	Women-owned Small and Medium Enterprises

## EXECUTIVE SUMMARY

- i. This Management Response pertains to the complaint received by the Office of the Compliance Advisor Ombudsman (CAO) on February 10, 2022, regarding ten active and three closed projects and sub-projects with six Financial Institutions (FIs) in Cambodia (the Complaint). The Complaint concerns three IFC clients, ACLEDA Bank Plc (ACLEDA), Amret Plc. (AMRET), and Hattha Bank Plc. (HTB), and three sub-clients, LOLC (Cambodia) Plc. (LOLC), Prasac Microfinance Institution Plc. (PRASAC), and Sathapana Bank Plc. (Sathapana), through investments by three funds, Microfinance Enhancement Facility S.A., SICAV-SIF (MEF), Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF (MIFA) and North Haven Thai Private Equity L.P. (North Haven), and an investment holding company, Advans SA SICAR (Advans), in which IFC has direct investments.
- ii. The Complaint was filed by two local civil society organizations (CSOs), the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC), on behalf of a group of individual affected borrowers (the Complainants). The Complaint raises concerns regarding the microfinance lending and collection practices of the six FIs in Cambodia. The Complainants allege that they have not been provided sufficient information, in language that is understandable to them, to fully grasp the conditions of the loans they agreed to. The Complaint alleges negative social impacts of these FIs' debt collection activities, including loss of land, loss of livelihood, food insecurity, threats to health, and child labor, as well as negative impacts on Indigenous Peoples. It also raises concerns related to IFC's environmental and social (E&S) due diligence, project categorization, and project supervision, and IFC's clients' compliance with its E&S requirements. The Complainants requested that CAO keep their identities confidential out of fear of reprisals.
- iii. The CAO found the Complaint eligible for assessment on April 7, 2022, after determining it met its eligibility criteria. IFC takes the issues raised in this complaint seriously. Regarding reprisals, IFC's Position Statement on Retaliation Against Civil Society and Project Stakeholders (October 2018)<sup>28</sup> makes clear that 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.
- iv. The six FIs referenced in the Complaint are collectively considered as systemically important for the Cambodian financial sector. The projects and sub-projects are fully aligned with the World Bank Group (WBG) Country Partnership Frameworks, the WBG COVID-19 Crisis Response Approach Paper, and IFC's strategic priorities for Cambodia. Out of the ten active projects, two projects are qualified as Tier 2 capital and played a crucial role in supporting the regulatory capital base and resilience of the respective FIs during the COVID pandemic. Microfinance plays a critical role in Cambodia in reducing poverty, supporting livelihoods, and creating jobs, especially as the economy emerges from the strains of COVID-19.
- v. IFC has continuously worked to strengthen responsible finance practices in Cambodia at both institutional and sectoral levels. This work goes beyond requirements of IFC's Sustainability Framework. At the institutional level, IFC works selectively with FIs that have responsible lending practices, assesses FIs' underwriting and collection practices during due diligence processes, and monitors the evolution of these practices through portfolio supervision. IFC incorporated affirmative covenants requiring compliance with the Client Protection and Responsible Finance Principles (see

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<sup>28</sup> [https://www.ifc.org/wps/wcm/connect/ade6a8c3-12a7-43c7-b34e-f73e5ad6a5c8/EN\\_IFC\\_Reprisals\\_Statement\\_201810.pdf?MOD=AJPERES&CVID=ocZ1hXY](https://www.ifc.org/wps/wcm/connect/ade6a8c3-12a7-43c7-b34e-f73e5ad6a5c8/EN_IFC_Reprisals_Statement_201810.pdf?MOD=AJPERES&CVID=ocZ1hXY)

sample in Annex 3), which cover avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, grievance redress mechanism, and/or data privacy protection, in loan agreements of the clients and funds involved in the Complaint.<sup>29</sup> In addition, IFC has provided Advisory Services to the FIs, including helping transform from nongovernmental organizations to commercial microfinance institutions (MFIs) and to commercial banks, improving corporate governance and risk management capacity, and raising the standards of their responsible finance practices. IFC is also implementing an initiative since April 2021 (Cambodia RF #606119)<sup>30</sup> to assess the responsible finance practices of IFC clients and assist them in making time-bound improvements.

- vi. At the sector level, IFC has worked with NBC since 2006 to build the Credit Bureau Cambodia (CBC), the country's first credit bureau and a source of transparency and information for credit reporting as well as a tool to reduce the risk of borrowers' over-indebtedness; IFC has collaborated with the Cambodian Microfinance Association (CMA), the CBC, and the SMART Campaign<sup>31</sup> to promote the Lending Guidelines – an initiative established to reduce the risk of the credit market overheating; and has implemented an insolvency and debt resolution upstream project, which covers non-performing loan management and debt resolution, to strengthen fair and transparent debt collection practices. IFC believes that continued engagement in the Cambodian financial sector is important at both institutional and sectoral levels to further influence responsible finance and consumer protection practices.
- vii. IFC Management respects the CAO's process in its assessment of the Complaint in relation to IFC's investment in the six IFC clients and sub-clients. The alleged harms, while serious, are not the result of non-compliance with the IFC E&S Policies but are related to lending and collection practices by IFC clients, which IFC addresses through its responsible finance framework as described in v and vi above. Accordingly, IFC Management is of the view that the criteria for a compliance investigation are not met.
- viii. IFC's Sustainability Framework applies to the E&S risks and potential impacts of the supported *business activity on surrounding community and workers*. Customers or 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.<sup>32</sup> In the case of financial

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<sup>29</sup> The three IFC clients referenced in the Complaint include ACLEDA, AMRET and HTB. IFC does not have direct agreements with sub-clients. IFC 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).

<sup>30</sup> IFC has been working on a responsible finance initiative in Cambodia (Cambodia RF #606119) since April 2021, which assesses its FI clients' responsible finance practices, assists its clients to make time-bound improvements and enables IFC's FI clients to continue providing sustainable financing solutions to their customers.

<sup>31</sup> 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.

<sup>32</sup> 2012 Sustainability Policy (para 3, footnote 2) refers to environmental and social impacts as any change, potential or actual, to (i) the physical, natural, or cultural environment and (ii) impacts on "surrounding community and workers", resulting from the business activity to be supported. "Surrounding community and workers" are stakeholders considered when assessing potential environmental and social impact. Performance Standard 1 also specifies "other stakeholders" (beyond surrounding community and workers) as national and local authorities, neighboring projects, and/or nongovernmental organizations (para 1, footnote 1)).

intermediaries, the business activity IFC supports and assesses the E&S risk of, is the use of loans by sub-borrowers. IFC's Sustainability Framework does not focus on risks and impacts on individual sub-borrowers themselves.

- ix. Rather, IFC reviews these types of financial consumer protection issues through the lens of responsible finance and as part of its broader financial due diligence processes. Alongside implementing its Sustainability Framework requirements, IFC is committed to reviewing and addressing the issues raised in the complaint, which pertain to responsible finance and financial consumer protection (FCP) practices, along with other relevant stakeholders active in Cambodia -- such as the World Bank, NBC, CMA, the Association of Banks in Cambodia (ABC) and other multilateral development financial institutions. IFC will implement the following activities at the project, sector, and regulatory levels:

***Project-specific irregularities alleged in the Complaint:***

- Assess whether any irregularities related to responsible finance principles in loans provided to the Complainants occurred (provided that information on individual Complainants is shared with IFC) and, jointly with the FI clients, define any improvements necessary to avoid such irregularities in future.
- In instances where IFC ascertains that such irregularities related to responsible finance principles occurred, work with its client(s) to address them at the level of individual borrowers as appropriate.

***Reprisals Risk***

- Continue to engage with and train IFC's clients and sub-clients on preventing, managing, and addressing the risk of reprisals. IFC will build on the training provided on this topic to AMRET, HTB and PRASAC in November 2022 to improve their capacity to address reprisals. In addition, IFC is looking to provide similar training and guidance to the remaining clients and sub-clients involved in the complaint, as well as extending these sessions to the rest of the industry by partnering with the NBC and CMA. Supportive of the Complainants' request for confidentiality, IFC would welcome any engagement with the complainants and their representatives in the described activities to inform and strengthen responsible finance practices.

***IFC approach to responsible finance:***

- Open a public consultation on IFC's approach to responsible finance reflected in the Client Protection and Responsible Finance Principles, including specific conditions for disclosure of relevant loan-related information to borrowers. The consultation period would be open for 45 days, during which relevant parties in Cambodia, including the Complainants, would be able to provide their comments.
- Amend the approach to responsible finance within six months from the end of consultations, reflecting the consultation findings.
- Publish the approach to responsible finance and apply the revised version as a standard condition of financing for all microfinance lending in Cambodia.

***Financial consumer protection (FCP) regulation in Cambodia:***

- Engage the Cambodian Government in designing a FCP regulation to address any existing shortcomings at the sector level. This may include addressing implementation of the enhancements as described in the Cambodian NFIS.

## VII. INTRODUCTION

8. In February 2022, a complaint (the Complaint) was lodged with the Office of the Compliance Advisor Ombudsman (CAO) concerning IFC projects and sub-projects with ACLEDA Bank Plc. (ACLEDA), Hattha Bank Plc. (HTB) and Amret Plc. (AMRET), and IFC sub-projects with LOLC (Cambodia) Plc. (LOLC), Prasac Microfinance Institution Plc. (PRASAC), and Sathapana Bank Plc. (Sathapana) (together, six Financial Institutions, or FIs) in Cambodia. The IFC projects are financed directly by IFC, and the IFC sub-projects are financed by Microfinance Enhancement Facility S.A., SICAV-SIF (MEF), Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF (MIFA), Advans SA SICAR (Advans), and North Haven Thai Private Equity L.P. (North Haven).

9. The Complaint relates to the following active and closed IFC projects (collectively, the Projects): ACLEDA projects #42480 and #44882; HTB projects #44211, #44742 and #45535; AMRET projects #34748, #41294 and #44231; MEF equity (#27827), MIFA equity (#31467), Advans SA equity (#21856), and North Haven equity (#38609), all active, and HTB senior loans (project #32642), which is closed.

10. The Complaint was filed by two local civil society organizations (CSOs) – the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC) – on behalf of a group of individual borrowers residing in Cambodia (the Complainants). IFC does not have information about the total number of complainants or details on the number of complainants per project or sub-project. The Complainants make several allegations, which are presented in more detail in Section III below. The Complainants requested that CAO keep their identities confidential out of fear of reprisals.

11. In April 2022, the CAO found the Complaint eligible and initiated an assessment. In August 2022, the CAO extended the assessment period for 30 business days as per the CAO Policy, given that some of the parties to the Complaint expressed interest in a CAO-facilitated dispute resolution process. In September 2022, it was determined that such a process would not be possible due to lack of agreement by all the parties and that the Complaint would proceed to a compliance appraisal to determine whether the Complaint merits a compliance investigation or whether the case will be closed.

12. IFC takes seriously the allegations in the Complaint and is concerned especially by the fear of reprisals expressed by those making the complaint. IFC's Position Statement on Retaliation Against Civil Society and Project Stakeholders makes clear that 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. Upon learning about the Complainants' fear of reprisals, IFC took immediate action. It directly engaged with its FI clients who are the subject of the Complaint to reinforce IFC's position regarding reprisals. IFC communicated verbally and in writing to these clients that IFC does not tolerate any action by an IFC client that amounts to retaliation and developed and shared specific guidance on how to manage the risk of reprisals as a FI. In addition, IFC has developed and continues to provide trainings to FI clients in terms of managing the risk of reprisals, preventing retaliatory practices by their employees, and addressing concerns on reprisals. In November 2022, IFC provided training to AMRET, HTB and PRASAC on this topic, and is coordinating to provide similar training to the rest of the entities involved in the complaint before the end of the year.<sup>33</sup> IFC has supported and fully cooperated with the CAO in its assessment of the Complaint, including the facilitation of communications between the FIs and the CAO.

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<sup>33</sup> IFC held training sessions on Managing the Risk of Reprisal with AMRET on November 3, 2022; HTB November 16, 2022; and PRASAC November 18, 2022.

13. Management has reviewed CAO’s Assessment Report and prepared its response. The subsequent sections provide descriptions of the Projects’ background and the Complaint, and present Management’s Response.

## VIII. PROJECTS’ BACKGROUND

14. Microfinance plays a critical role in Cambodia in reducing poverty, supporting livelihoods, and creating jobs, especially as the economy emerges from the strains of COVID-19. The six FIs referenced in the Complaint are collectively considered as systemically important for the Cambodian financial sector. The projects and sub-projects are fully aligned with the World Bank Group (WBG) Country Partnership Frameworks (CPF), the WBG COVID-19 Crisis Response Approach Paper as well as IFC’s strategic priorities for Cambodia.

15. For IFC’s projects that support FIs’ microfinance businesses, the E&S risks and potential impacts arising from the *use of proceeds* by individuals or microenterprises are usually very limited. The size of loans typically does not exceed US\$10,000 and the proceeds are used for individual needs or operations of micro businesses such as agriculture or convenience stores. Such lending is normally considered low risk from an E&S perspective and categorized as FI-3 (the lowest E&S risk category for FI projects). In line with paragraph 35 of the Sustainability Policy, FI-3 clients are required to implement a simple E&S screening procedure. Such screening is considered to constitute an Environment and Social Management System (ESMS) that is commensurate with the minimal level of E&S risk in these transactions. Where loans also may be provided to small and medium enterprises (SMEs), the E&S risks can be higher and such transactions are typically categorized as FI-2. Clients of FI-2 transactions are required to put in place a more sophisticated ESMS.

### A. ACLEDA

16. ***IFC Investments in ACLEDA:*** ACLEDA has been a long-standing partner of IFC in Cambodia since IFC’s first engagement in 1998: the IFC-managed, donor-funded Mekong Private Sector Development Facility. Over the years, IFC has supported its transformation from a nongovernmental organization to a commercial microfinance institution (MFI) and then to a commercial bank and has provided ACLEDA and its subsidiaries with capital, funding, and Advisory Services to help it build institutional capacity, improve resilience, develop innovative products, and strengthen responsible finance practices and integrated risk management. With IFC’s encouragement, ACLEDA applied for SMART Campaign certification and became the first commercial bank in the country to be certified in 2017. IFC currently has two active investments (projects #42480 and #44882) with ACLEDA, with gross own account exposures of US\$160 million (see Annex 1 for details). IFC has also invested US\$15 million in equity in North Haven Thai (project #38609), a private equity fund, which acquired a 3.5 percent equity stake in ACLEDA in April 2022.

17. ***Project Context:*** The subordinated and senior loan projects (projects #42480 & #44882) align with the WBG’s CPF for Cambodia (FY2019-FY2023), and specifically with the first focus area of promoting state efficiency and boosting private sector growth by increasing access to finance for SMEs and promoting entrepreneurship and financial inclusion through specific targets for SMEs and women-owned/led SMEs (WSMEs). Project #44882 is fully aligned with the recovery phase pillar of “Rebuilding Better,” outlined in the “Saving Lives, Scaling-up Impact and Getting Back on Track: WBG COVID-19 Crisis Response Approach Paper” (June 2020), focusing on new opportunities to build a more sustainable, inclusive, and

resilient future. These investments also fit with IFC's strategic priority of enhancing economic competitiveness and financial inclusion in the country (FY2020-FY2024).

18. **Project Purpose:** The subordinated loan (project #42480), which is qualified as Tier 2 capital under local regulations, is the first attempt by IFC at mobilizing Tier 2 capital in Cambodia from international lenders who have very limited appetite for Tier 2 capital due to the longer tenor and higher risk profile of the product. This project helped ACLEDA diversify its capital structure, strengthen its capital adequacy, and support its digitalization strategy. The senior loan (project #44882) enabled it to increase financial services for SMEs, including WSMEs and agricultural SMEs, as these enterprises work to sustain their businesses and recover from the impacts of the COVID-19 pandemic. The proceeds from IFC's investments were ringfenced for these purposes. Under the legal documents, none of the proceeds of these loans may be used to refinance or reschedule existing indebtedness of an eligible sub-borrower to ACLEDA (including debt-to-equity conversions), unless that refinancing or rescheduling is part of a financial restructuring aimed at the acquisition of new capital assets by that eligible sub-borrower. IFC's engagement with ACLEDA has strong demonstration effects and encouraged the latter to strengthen its cashflow-based credit assessment and commitment to responsible and sustainable finance.

19. **Advisory Services:** Since the initial engagement with ACLEDA in 1998, IFC provided technical and financial support to help ACLEDA prepare for its transformation from an MFI into a commercial bank and shared expertise in development of products of trade finance, SME finance, and agriculture finance etc. In June 2022, IFC completed a risk management advisory project, which helped ACLEDA to enhance its risk management capabilities, with focus on risk governance, capital management (internal capital adequacy assessment process), and stress testing to ensure its institutional strength under various market conditions and stress events, such as the COVID-19 crisis, as well as the higher capital adequacy ratio required by NBC.

## B. HTB

20. **IFC Investments in HTB:** HTB, a commercial bank licensed by NBC in August 2020, has been a partner of IFC in Cambodia since 2015, when it was a leading microfinance deposit-taking institution, known as Hattha Kaksekar Limited (HKL). Over the years, IFC has provided funding and Tier 2 capital to HTB, supported its transformation from an MFI to a commercial bank, and provided Advisory Services and knowledge sharing to help it improve resilience, develop gender finance and SME lending, and strengthen responsible finance practices. As of April 7, 2022, IFC made four active investments in HTB with own account exposures of US\$45.7 million (see Annex 1); of these, two projects (#39167 and #44211) were fully repaid in June 2022, and two (#44742 and #45535) remain active as of the date of this Management Response. IFC has a further indirect exposure to HTB through its investment in MEF (project #27827), which has an outstanding loan of US\$3.5 million to HTB.

21. **Project Context:** The investment projects with HTB were aligned with the WBG's CPF for Cambodia (FY2019-2023) and IFC's strategic priorities for the country by contributing to the improvement of economic competitiveness and financial inclusion. In addition, projects #44211, #44742, and #45535 are fully aligned with the recovery phase pillar "Rebuilding Better," outlined in the "Saving Lives, Scaling-up Impact and Getting Back on Track: WBG COVID-19 Crisis Response Approach Paper" (June 2020) focusing on new opportunities to build a more sustainable, inclusive, and resilient future.

22. **Project Purpose:** All the HTB projects referenced above aimed to promote entrepreneurship and financial inclusion for micro, small and medium enterprises (MSMEs) in Cambodia. The projects #44211, #44742, and #45535 were specifically aimed at supporting HTB and its MSME customers (including

WMSMEs) during and after the COVID-19 pandemic, thereby enabling business continuity and sustainable growth of MSMEs, which play a crucial role in the economy. In addition, project #44742, a subordinated loan syndication qualified for Tier 2 capital under local regulations, aimed at diversifying HTB's capital structure, strengthening its capital adequacy, and contributing to financial stability amidst the prolonged impact of the pandemic.

23. **Advisory Services and Upstream Engagements:** IFC provided advisory support for HKL's transformation into a commercial bank between 2017 and 2018. In addition, IFC conducted a responsible finance assessment of HTB between 2021 and 2022, which included a comparative review of HTB's lending practices against internationally recognized standards, aimed at promoting use of the highest responsible finance standards and enabling HTB to continue providing sustainable financing solutions to its customers.

### C. AMRET

24. **IFC Investments in AMRET:** AMRET has been a long-standing partner of IFC in Cambodia since September 2014, when IFC made an equity investment of US\$17.5 million in Cambodian Riel equivalent, for 19.99 percent common equity stake in AMRET (AMRET equity project, #34748). Since then, IFC has been providing funding to support AMRET's lending to MSMEs, including WMSMEs, in Cambodia. In June 2020 and June 2021, IFC provided AMRET with one-year revolving senior loans of US\$37.5 million in total through two tranches under IFC's COVID-19 Working Capital Solution Crisis Response Facility to support AMRET's MSME (including WMSME) customers affected by the COVID-19 pandemic (project #44231). As of April 7, 2022, IFC had three active investment projects with AMRET with own account exposures of US\$45 million (see Annex 1), and as of the date of this Management Response, two projects, #34748 and #44231, remain active, with outstanding own account exposures of US\$30 million in total. Details of IFC's direct investment relationships are provided in Annex 1. As of March 31, 2022, IFC has an indirect exposure to AMRET through its investments in MEF (project #27827) and the MIFA Fund (project #31467), which have outstanding loans to AMRET of US\$13.8 million and US\$5.5 million, respectively. In addition, IFC holds a 16 percent equity stake in AMRET's parent company, Advans (project #21856). Advans in turn holds a 52.78 percent stake in AMRET.

25. **Project Context:** The AMRET equity project #34748 was aligned with WBG's CPF and IFC's strategy in Cambodia, which focused on promoting inclusive growth and strengthening Cambodia's economic competitiveness through broadening of financial markets. The project aimed to contribute to the development of the microfinance sector in Cambodia by supporting AMRET to improve and expand its financial services to its MSME clients in rural areas and engage in agriculture-related activities. Project #41294 was aligned with the WBG strategy in Cambodia in FY2016-2017, which focused on supporting Cambodia's export-driven economy to enhance the country's business climate and address competitiveness bottlenecks, improving service delivery to alleviate vulnerabilities, and promoting income-earning opportunities for the poorest segments of the population. Project #44231 was part of IFC's COVID-19 Working Capital Solution Crisis Response Facility and was fully aligned with the recovery phase pillar, "Rebuilding Better," outlined in the "Saving Lives, Scaling-up Impact and Getting Back on Track: WBG COVID-19 Crisis Response Approach Paper" (June 2020), focusing on new opportunities to build a more sustainable, inclusive, and resilient future.

26. **Project Purpose:** The AMRET equity project #34748 aimed to improve AMRET's shareholding structure, corporate governance, and institutional capacity. As a shareholder, IFC could provide more significant support in terms of strategy to help reinforce the company's mission to target the base of the

pyramid and MSMEs, while exploring the route for AMRET’s transformation into a commercial bank to make its operations more sustainable. Project #41294 aimed to provide medium-term funding to support AMRET’s on-lending activities to MSMEs and WMSMEs. Project #44231 provided short-term financial relief to MSMEs and WMSMEs in Cambodia affected by the COVID-19 pandemic.

#### **D. PRASAC, LOLC and Sathapana Bank**

27. IFC does not currently have active investments in PRASAC, LOLC, or Sathapana Bank, but it does have indirect exposures to these financial institutions through the following investments:

- MEF (project #27827), a microfinance investment vehicle, in which IFC has a 20 percent stake. MEF has outstanding senior loans of US\$7.8 million to PRASAC and US\$14.2 million to LOLC as of March 31, 2022.
- MIFA (project #31467), a microfinance investment vehicle, in which IFC has a 10 percent stake. MIFA has an outstanding subordinated loan of US\$3.2 million to Sathapana, two senior loans totaling US\$5.5 million to AMRET, and two subordinated loans totaling US\$9 million to LOLC.

28. ***IFC Investments in MEF and MIFA:*** Since pioneering commercial microfinance in the 1990s, IFC’s strategy for financial inclusion includes investing in the microfinance sector through structured investment vehicles and other forms of wholesale financing, demonstrating the business case for commercial microfinance and promoting it as a viable asset class to other institutional investors. Both MEF and MIFA were joint initiatives of IFC and KfW (the German development bank). The fund managers make their investment decisions independently, following a set of eligibility criteria and responsible finance principles, and are also required by IFC to apply relevant E&S requirements to their investments in the microfinance sector.

- MEF was launched as a response to the 2008/2009 global financial crisis to maintain confidence in the microfinance industry. IFC invested US\$150 million in mezzanine shares of the Fund, representing 20.2 percent. As of December 2021, MEF had total assets of more than US\$715 million and its investors include several European development banks and agencies, and private investors. Since inception, MEF has supported low-income borrowers by providing over US\$2.6 billion through 800 loans to more than 291 financial institutions active in microfinance in 59 developing countries, among them AMRET, HTB, LOLC, PRASAC, and Sathapana.
- MIFA was launched in 2012 as the first microfinance fund to focus exclusively on the Asia region, with the aim of expanding and deepening the delivery of microfinance services there, where the need and the potential to reach large populations were significant. IFC invested US\$16.75 million in mezzanine shares. As of June 2022, MIFA had total assets of US\$166 million and its investors include pension funds and private foundations. Since inception, MIFA has provided over US\$540 million in over 100 loans to more than 40 MFIs in 14 Asian countries, among them LOLC, Sathapana, and AMRET.

#### **IX. CAO COMPLAINT**

29. On February 10, 2022, the Complaint was lodged with CAO by two local CSOs – LICADHO and EC – on behalf of the Complainants. They allege that they have not been provided sufficient information,

in language that is understandable to them, to fully grasp the conditions of the loan agreements into which they entered. They allege negative social impacts from the debt collection activities of the lenders, including loss of land, loss of livelihood, food insecurity, threats to health, and child labor, as well as negative impacts on Indigenous Peoples. The Complaint also raises concerns related to IFC's E&S due diligence, project categorization, and project supervision, and IFC clients' compliance with IFC's E&S requirements.

30. On April 7, 2022, the CAO informed IFC that the Complaint was eligible for an assessment in relation to IFC's investments in the projects after considering the three criteria for eligibility: (i) the complaint pertains to a project that IFC is participating in; (ii) the issues raised in the complaint pertain to CAO's mandate to address E&S impacts of IFC projects; and (iii) the complainant is, or may be, affected by the environmental and/or social impacts raised in the complaint.

31. On May 3, 2022, LICADHO and EC issued a joint statement published on their respective websites with a summary of the Complaint and the names of the six IFC clients and sub-clients. The statement did not identify the Complainants.

32. On May 20, 2022, the CAO shared a redacted Complaint with IFC to be further communicated with the concerned clients and sub-clients. The CAO also shared a redacted version for IFC's internal use. Given the desire of the Complainants to remain anonymous, the CAO has not shared the full text of the Complaint with IFC. It is not clear from the redacted Complaint which FIs are accused of which practices and what is the magnitude of the alleged malpractices as the number of Complainants affected has not been disclosed to IFC.

33. As noted earlier, the Complainants had requested CAO to keep their identities confidential out of fear of reprisals. While Management fully understands complainants' desire to remain anonymous it finds CAO's explanation linking disclosure of statistical data about the number of complainants and the risk of reprisals difficult to understand. During the CAO assessment process, IFC facilitated and encouraged the participation of its clients in the process, raised awareness of reprisal concerns, and provided capacity building of its clients to address such issues. On October 12, 2022, IFC also requested through CAO a meeting with LICADHO and EC to better understand the other allegations presented in the Complaint, but at the time of the release of this report the willingness of LICADHO and EC to meet IFC representatives has not been confirmed.

34. In August 2022, the CAO extended the assessment period for 30 business days as per the CAO Policy, given that nine of the Complainants shared their wish to engage in dispute resolution with the FIs to seek mutually acceptable solutions to their concerns. IFC's client AMRET, and two sub-clients, PRASAC and LOLC, initially expressed willingness to engage in dispute resolution but later did not confirm this intention.

35. The CAO released its draft Assessment Report on September 15, 2022. As consensus on engaging in a voluntary dispute resolution process to address the Complaint was not achieved, the Complaint moves to the CAO Compliance phase for appraisal, per the CAO's Policy.

## **X. MANAGEMENT RESPONSE**

36. IFC Management respects the CAO's process in its assessment of the Complaint in relation to IFC's investment in the six IFC clients and sub-clients. IFC acknowledges that the issues raised in the Complaint are serious and require further analysis and follow up by IFC and other stakeholders.

37. ***IFC's efforts in responsible finance at institutional level.***

- IFC strives to work only with a select group of FIs that are committed to good client protection and responsible finance practices.
- Responsible finance is an important aspect for all IFC investments in microfinance providers, including the projects and sub-projects mentioned in the Complaint. IFC's investment appraisal of microfinance providers includes detailed due diligence covering: (i) an extensive review of corporate governance; (ii) interviews with internal and external stakeholders; (iii) reviews of investees' policies involving their products, lending and collection practices, consumer protection policies, collateral policies, human resources management and performance incentives, and E&S related policies and frameworks; (iv) loan file reviews to check the consistency between policies in place and implementation; and (v) on-site visits of selected branches, with interviews of branch managers and borrowers (these visits could not be conducted during the pandemic but were replaced by virtual meetings with senior and branch managers during the course of the respective appraisals). Any repeat projects require a full review of the client's businesses. These due diligence procedures allow IFC to have a deep understanding of the responsible finance practices of its current and prospective FI clients.
- IFC is engaging with its clients to work on a responsible finance initiative to promote responsible finance principles, under which IFC aims to work with existing and prospective FI clients to review, assess, and provide recommendations to further develop the FIs' responsible finance policies and practices, as well as jointly agree on action plans to implement identified recommendations. IFC incorporated affirmative covenants requiring compliance with the Client Protection and Responsible Finance Principles (see sample in Annex 3), which cover avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, grievance redress mechanism, and/or data privacy protection, in loan agreements of the clients and funds involved in the Complaint.<sup>34</sup> IFC assesses client's compliance with the Principles and requires actions to address any identified gaps to its satisfaction along pre-agreed timelines. For example, where needed, IFC sets financial covenants in the loan agreements with FI clients to require high-risk refinancing loans<sup>35</sup> to decrease as a proportion of monthly disbursements over time, as this discourages FIs from providing larger loans to borrowers too soon after making earlier loans, since such lending practices can lead to borrowers' over-indebtedness. More specifically, IFC assessed the responsible finance practices of each of the clients involved in the complaint during the appraisals conducted in the context of the referenced projects and addressed the identified areas for improvement via the adoption of the affirmative covenants abovementioned in this section.

38. ***IFC's efforts in responsible finance at sectoral level.*** IFC has proactively promoted responsible finance and client protection practices in the microfinance sector in Cambodia, in collaboration with various stakeholders. Since 2006, IFC has worked with the WBG and the NBC to set up the Credit Bureau Cambodia (CBC), the country's first, and a source of transparency and information for credit reporting and

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<sup>34</sup> IFC 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).

<sup>35</sup> High-risk refinancing loans in the CMA Lending Guidelines Report are defined as: (i) loans refinanced during the first trimester with the new loan amount higher than 140 percent of the old loan; or (ii) loans refinanced during the second trimester with the new loan amount higher than 180 percent of the old loan.

underwriting of as well as a tool for FIs to reduce the risk of borrowers' over-indebtedness. CBC currently serves 176 member FIs, including the six FIs named in the Complaint, and its database covers approximately 60 percent of the adult population in the country to date. CBC contributes to responsible finance monitoring by issuing reports to all financial institution members and providing sector-wide reporting to CMA and the Association of Banks in Cambodia (ABC). IFC has collaborated with the CMA, CBC, and SMART Campaign to promote the Lending Guidelines – an initiative established in 2016 to reduce the risks of the credit market overheating and borrower over-indebtedness. In 2020, IFC began implementing an insolvency and debt resolution upstream project in Cambodia, which covers non-performing loan management and debt resolution, to strengthen fair and transparent debt collection practices. Under this initiative, IFC is currently working on two components: (i) developing a mechanism for flexible out-of-court workouts, and (ii) developing and implementing the required specific regulations under the Insolvency Law, especially the rules governing insolvency administrators. Under the first component, IFC is supporting the National Commercial Arbitration Centre in Cambodia, to establish commercial mediation rules to facilitate dispute resolution alternatives. The project has provided commercial mediation training to 16 local commercial mediators who have been internationally accredited. Both components are expected to achieve key approvals from relevant government authorities in Cambodia by mid-2023, after which IFC will start working on strengthening the capacity of debt resolution stakeholders such as central bank, lenders, lawyers, insolvency judges and administrators.

39. The CAO Policy provides specific appraisal criteria for determining whether a compliance investigation is necessary, including: (a) whether there are preliminary indications of harm or potential harm; (b) whether there are preliminary indications that IFC may not have complied with its E&S Policies; and (c) whether the alleged harm is plausibly linked to the potential non-compliance.<sup>36</sup> With respect to IFC, the CAO Policy defines “E&S Policies” as including: (i) IFC’s Policy on Environmental and Social Sustainability (the Sustainability Policy), (ii) the project-specific provisions of IFC’s Access to Information Policy of IFC; and (iii) any other Board-approved environmental and social commitments for projects.<sup>37</sup> While respecting CAO’s independence in its eligibility decision and CAO Assessment Report findings, Management has reviewed the allegations set forth in the Complaint and is of the view that criterion “b” regarding “preliminary indications that IFC may not have complied with its E&S Policies” has not been met.

40. IFC considers that lending and financial consumer protection (FCP) practices and risks arising to sub-borrowers in this context do not fall within the scope or specific requirements of IFC’s 2012 Sustainability Framework. The Sustainability Policy focuses on managing potential E&S impacts *on surrounding community and workers* resulting from the *business activity* to be supported.<sup>38</sup>

41. According to the 2012 Sustainability Policy, environmental and social impacts refer to any change to the physical, natural or cultural environment, and impacts on *surrounding community and workers*.<sup>39</sup> Performance Standard 1 also identifies other stakeholders as those not directly affected by the project but that have an interest in it, including national and local authorities, neighboring projects, and/or nongovernmental organizations.<sup>40</sup> Customers or consumers of a client’s products are not referenced in the

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<sup>36</sup> CAO Policy, para 91(b).

<sup>37</sup> CAO Policy, Glossary.

<sup>38</sup> Sustainability Policy, para 3, footnote 2.

<sup>39</sup> Sustainability Policy, para 3, footnote 2.

<sup>40</sup> Performance Standard 1, Para 1, footnote 1.

Sustainability Policy or Performance Standards as a category of stakeholder to which E&S risk mitigation measures should apply.

42. According to Performance Standard 1, the term “project” refers to a defined set of business activities, including those where specific physical element aspects, and facilities likely to generate risks and impacts, have yet to be identified. With respect to financial intermediaries, the *business activity* IFC supports through its FI clients and sub-clients is the business activity resulting from the use of proceeds of loans by sub-borrowers (for example, loans for individual consumption purposes or loans to purchase inputs for small-scale agriculture or to finance small-scale trade activities). The Sustainability Policy does not apply to the E&S impacts on sub-borrowers themselves.

43. Instead, IFC addresses these types of financial consumer protection issues and risks as part of its broader financial due diligence processes and through the lens of responsible finance. In this context, IFC fully recognizes the importance of strong lending and consumer protection practices in the microfinance industry and has taken a number of actions at the institutional, sectoral, and national level to enhance financial consumer protection in Cambodia, which are described in detail in paragraphs 30 and 31.

44. The complainants allege that IFC’s pre-project due diligence resulted in improper risk classification of its investments. Aligned with the requirements of the Sustainability Policy, IFC’s E&S due diligence is focused on an assessment of E&S risks and potential impacts related to the sub-borrowers’ *use of proceeds* from microfinance facilities that IFC provides through its FI clients and not potential E&S impacts on the sub-borrowers themselves. When a FI’s existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts, IFC classifies these investments as FI-3. The E&S risks and potential impacts associated with individuals or microenterprises’ use of proceeds from facilities that IFC provided through its FI clients’ microfinance programs have been assessed and typically found to be minimal. Therefore, this type of microfinance lending is normally considered as low risk and categorized as FI-3. Beyond providing micro loans to individual or microenterprises, some of the active projects also included components to finance SMEs, in which case, and to reflect the overall E&S risk of the investment, these transactions were categorized as FI-2.

45. In line with paragraph 35 of the Sustainability Policy, FI clients are required to develop and operate an ESMS that is commensurate with the level of environmental and social risks in its portfolio, and prospective business activities. For FI-3 investments this involves screening of business activities they support against the IFC Exclusion List and national law. Such E&S screening procedures are considered as constituting an ESMS that is commensurate with the minimal level of E&S risk in these transactions.<sup>41</sup> FI-2 clients are required to operate a more sophisticated ESMS where relevant requirements of the Performance Standards may be applied to higher risk business activities - project or long-term corporate lending.<sup>42</sup> As noted, microlending to individuals or microenterprises is considered a low-risk activity as per the policy focus on E&S impacts arising from the use of proceeds. The E&S risk classification of all active projects as well as clients’ ESMSs are aligned with the requirements of the Sustainability Policy. Accordingly, it is Management’s view that there are no preliminary indications that IFC may not have complied with its E&S Policies with respect to this aspect.

46. Supervision of responsible finance practices are subject to IFC’s investment portfolio supervision, rather than being monitored by E&S specialists. During the project supervision stage, IFC’s investment

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<sup>41</sup> Sustainability Policy, footnote 7.

<sup>42</sup> IFC Sustainability Policy, para 35.

portfolio supervision team (i) reviews periodically required reporting and covenants, including those linked to responsible finance, (ii) stays in regular touch with FI clients' management teams, key shareholders and other key stakeholders to keep abreast of the clients' latest strategic developments, including those related to responsible finance, and also (iii) conducts periodic updates to the integrity due diligence during portfolio supervision, which seeks to capture any reputational risks of the investees' directors, management, and sponsors.

47. Complainants allege that there are gaps in IFC's E&S framework that assess and manage E&S risks and impacts with respect to microfinance activities. However, the CAO appraisal criteria assess whether there are preliminary indications that IFC *may not have complied with its E&S Policies*, not whether such E&S Policies are adequate in their current form or whether IFC should revise its E&S Policies. IFC is committed to addressing social impacts such as those specified in the Complaint through its Client Protection and Responsible Finance practices, which are described below. Management recognizes that the issues related to responsible financing in Cambodia presented in the Complaint are serious ones that require further analysis and follow up by IFC and other stakeholders, such as the NBC, the CMA, and ABC. IFC is committed to addressing these issues and strengthening its Client Protection and Responsible Finance practices outside of a CAO compliance investigation process which is focused strictly on compliance with the Sustainability Policy.

48. IFC has adopted a programmatic approach to responsible finance in Cambodia, to instill and reinforce implementation of client protection and responsible finance practices by IFC's clients. Described above (paragraphs 30 to 31) are the actions that IFC has taken at the institutional, sectoral, and national level to enhance financial consumer protection in Cambodia.

49. Management recognizes that consumer protection could be further enhanced through the implementation of strategies reflected in Cambodia's National Financial Inclusion Strategy (NFIS).<sup>43</sup> These include steps such as: (i) issuing a financial consumer protection (FCP) regulation through the regulator, NBC; (ii) further strengthening efforts in financial consumer education; (iii) introducing an independent ombudsman; and (iv) streamlining mechanisms for dispute resolution and enhancing self-governance by the industry associations. IFC, together with other multilateral development financial institutions, will coordinate with NBC, CMA, ABC, and other stakeholders to support these improvements.

50. IFC is strongly committed to reviewing and addressing the issues raised in the complaint which pertain to responsible finance and financial consumer protection practices, along with other relevant stakeholders active in Cambodia, such as the World Bank, NBC, CMA, ABC, and other multilateral development financial institutions. To this end, and independent of a CAO compliance investigation process related to the Complaint, IFC is committed to pursuing the following approaches and activities:

***Project-specific irregularities alleged in the Complaint:***

- Assess whether any irregularities related to responsible finance principles in loans provided to the Complainants occurred (provided that information on individual Complainants is shared with IFC) and, jointly with the FI clients, define any improvements necessary to avoid such irregularities in future.
- In instances where IFC ascertains that such irregularities related to responsible finance principles occurred, work with its client(s) to address them at the level of individual borrowers, as appropriate.

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<sup>43</sup> National Financial Inclusion Strategy 2019-2025 published on NBC's website:  
[https://www.nbc.org.kh/download\\_files/publication/blueprints\\_eng/Final\\_NFIS\\_in\\_English.pdf](https://www.nbc.org.kh/download_files/publication/blueprints_eng/Final_NFIS_in_English.pdf)

### ***Reprisals Risk***

- Continue to engage with and train IFC's clients and sub-clients on preventing, managing, and addressing the risk of reprisals. IFC will build on the training provided on this topic to AMRET, HTB and PRASAC in November 2022 to improve their capacity to address reprisals. In addition, IFC is looking to provide similar training and guidance to the remaining clients and sub-clients involved in the complaint, as well as extending these sessions to the rest of the industry by partnering with the NBC and CMA. Supportive of the Complainants' request for confidentiality, IFC would welcome any engagement with the complainants and their representatives in the described activities to inform and strengthen responsible finance practices.

### ***IFC approach to responsible finance:***

- Open a public consultation on the IFC approach to responsible finance reflected in the Client Protection and Responsible Finance Principles, including specific conditions for disclosure of relevant loan related information to borrowers. The consultation period would be open for 45 days, during which relevant parties in Cambodia, including the Complainants, would be able to provide their comments.
- Amend the approach to responsible finance within six months from the end of consultations, reflecting the consultation findings.
- Publish the approach to responsible finance and apply the revised version as a standard condition of financing for all microfinance lending in Cambodia.

### ***Financial consumer protection (FCP) regulation in Cambodia:***

- Engage the Cambodian Government in designing a FCP regulation to address any existing shortcomings at the sector level. This may include addressing implementation of the enhancements as described in the Cambodian NFIS.

51. IFC welcomes any engagement with and participation of the Complainants and their representatives in the above activities to inform and strengthen responsible lending practices, while remaining supportive of their request for confidentiality.

52. Management is committed to provide updates to the Board, on request, about the status of implementation of the above-mentioned activities.

## **Disclaimer**

This IFC Request for Board Review is provided in response to the Appraisal Report of the Office of the Compliance Advisor Ombudsman (CAO) finding a complaint to a project supported by IFC finance or investment eligible for compliance investigation.

Nothing in this IFC Request for Board Review or in the process provided for in the CAO Policy (“CAO Process”) (1) creates any legal duty, (2) asserts or waives any legal position, (3) determines any legal responsibility, liability, or wrongdoing, (4) constitutes an acknowledgment or acceptance of any factual circumstance or evidence of any mistake or wrongdoing, or (5) constitutes any waiver of any of IFC’s rights, privileges, or immunities under its Articles of Agreement, international conventions, or any other applicable law. IFC expressly reserves all rights, privileges, and immunities. IFC does not create, accept, or assume any legal obligation or duty, or identify or accept any allegation of breach of any legal obligation or duty by virtue of this IFC Request for Board Review.

While reasonable efforts have been made to determine that the information contained in this IFC Request for Board Review is accurate, no representation or warranty is given as to the accuracy or completeness of such information. CAO is not a judicial or legal enforcement mechanism. Its analyses, conclusions, and reports are not intended to be used in judicial or regulatory proceedings nor to attribute legal fault or liability and it does not engage in factfinding nor determine the weight that should be afforded to any evidence or information. No part of this IFC Request for Board Review or the CAO Process may be used or referred to in any judicial, arbitral, regulatory, or other process without IFC’s express written consent.