

MARCH 2025

Assessment Report

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

IFC/MIGA Project number: (IFC 27827)

About CAO

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

CAO is an independent office that reports directly to the IFC and MIGA Boards of Executive Directors. For more information, see <http://www.cao-ombudsman.org/about-us>.



List of Acronyms

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

1 Executive Summary

In June 2024, CAO received four complaints from four different individuals, all concerning the same project and sub-client. This report describes one of these complaints (Case number: Cambodia MEF-08), in relation to alleged predatory and deceptive lending practices in the Cambodian microfinance sector linked to IFC sub-client KB PRASAC Bank Plc (“PRASAC”), a microfinance institution (MFI) in Cambodia. At the time the complaint was filed, IFC had indirect financial exposure to PRASAC through their investment in the Microfinance Enhancement Facility (MEF) (IFC Project: MLF¹ #27827). PRASAC subsequently repaid their loan to MEF on 18 July 2024. There is an ongoing CAO compliance investigation regarding the practices of six financial institutions (four banks and two microfinance institutions) in Cambodia; PRASAC is one of the six.²

The complainant took a loan from PRASAC in 2017, which she claims caused financial hardship, including coercion to sell land, loss of livelihood, and negative impacts on her children's education. She alleges that PRASAC's deceptive lending practices, along with threats, intimidation from staff, and legal action, including threats to sell additional properties, have caused significant harm to her and her family. In October 2024, CAO determined that the complaint met its eligibility criteria and was not the same in all material respects as a complaint that had previously been submitted to the CAO.³ Following the eligibility determination in October 2024, CAO began an assessment of the complaint.

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

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

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

2 Background

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

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

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

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

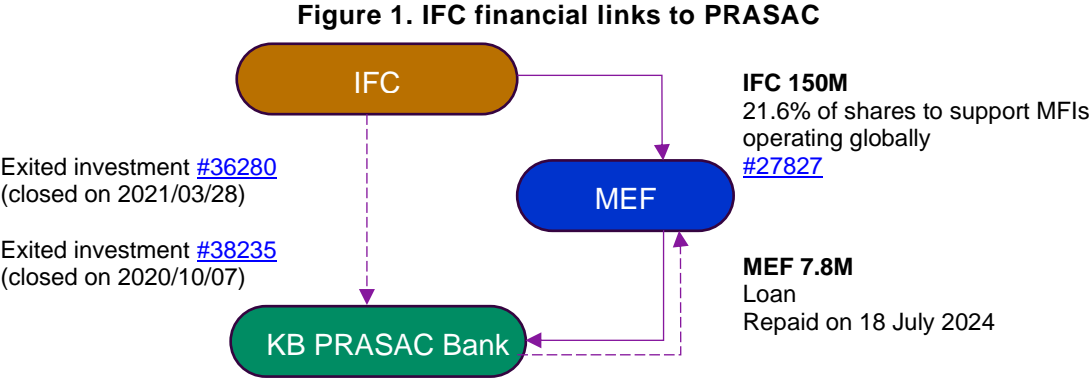
⁴ CAO Policy: <https://www.cao-ombudsman.org/sites/default/files/documents/CAO%20Policy/ifc-miga-independent-accountability-mechanism-cao-policy.pdf>

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

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

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

PRASAC⁶ is a subsidiary of KB Kookmin Bank-Korea, a new commercial bank in Cambodia formed through the successful merger of PRASAC Microfinance Institution Plc and Kookmin Bank Cambodia Plc. PRASAC has a commercial license from the National Bank of Cambodia (NBC) and officially received its approval from the Ministry of Commerce (MoC) of Cambodia for banking operations in August 2023. PRASAC Microfinance Institution Plc was formerly a direct IFC client through two loans⁷ designed to support expansion of PRASAC’s microfinance, agricultural, and SME portfolio. IFC exited these investments in October 2020 and March 2021. The sub-client’s repayment transaction happened during the CAO’s eligibility determination stage.



3 Assessment Purpose & Methodology

3.1 Assessment Purpose

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

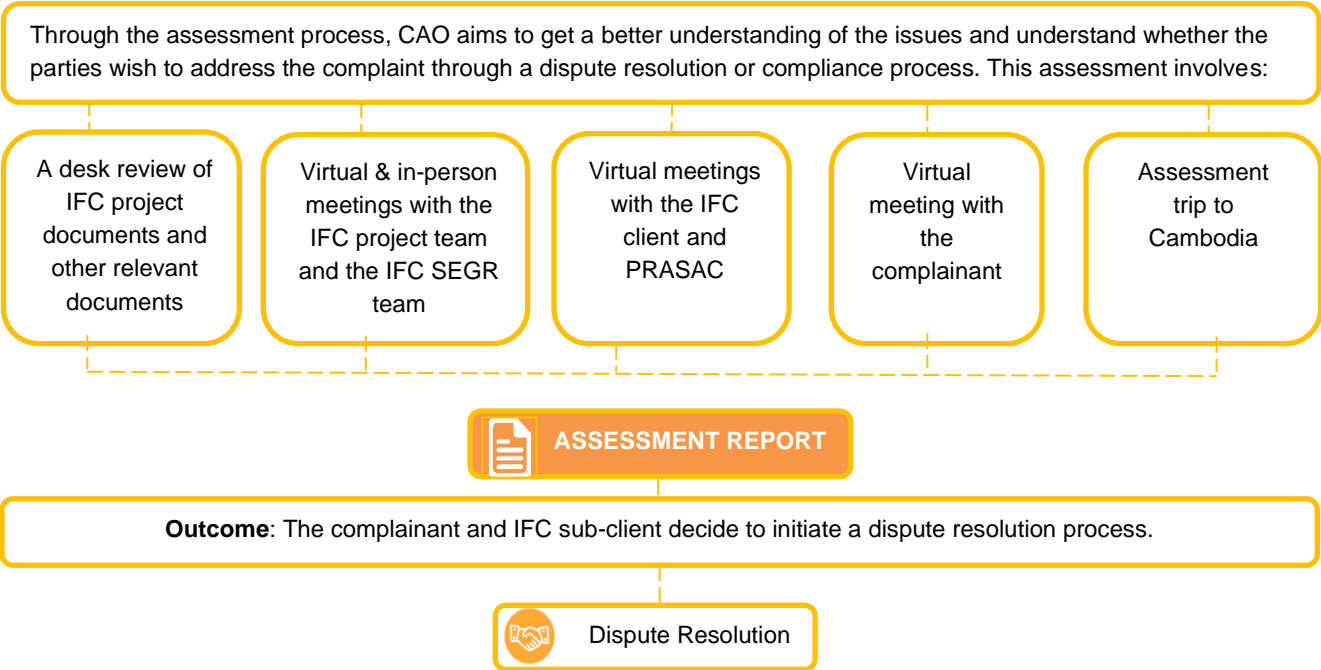
The aim of the CAO assessment process is to develop a thorough understanding of the issues and concerns raised by the complainant(s), gather information on the views of different stakeholders, and determine whether the complainant(s) and the IFC sub-client(s) would like to pursue a dispute resolution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

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

3.2 Assessment Methodology

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

Figure 2. CAO Assessment Process



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

4 Complainants’ Perspective

The complainant took a loan from PRASAC in 2017 to support her construction business. She claims that the loan has led to hardship, including coercion to sell land, loss of livelihood, and negative impacts on her children’s education. The complainant alleges that PRASAC’s predatory and deceptive lending practices, involving threats and intimidation from staff, as well as legal

action and threats to sell additional properties due to her inability to repay the loan, have adversely affected her and her family. Additionally, she highlights the lack of an effective mechanism to address her concerns. The issues raised by the complainant in her complaint and shared in-person with the CAO assessment team are explained below.

Loss of land and livelihood

The complainant explained that after taking the loan from PRASAC, she began facing financial difficulties when her clients were unable to pay her, largely due to the economic impact of the COVID-19 pandemic. Consequently, she was unable to meet her loan repayments to PRASAC. In 2023, PRASAC initiated legal action against her for non-payment, which led to her being coerced into selling plots of land and other income-generating assets under duress, in order to make loan payments. The complainant added that she felt forced to sell these income-generating assets for less than market value and used all of the funds from the sales to make payments to PRASAC. Despite payments made, she indicated that she continues to be indebted to PRASAC, has poor credit history, which impacts her ability to seek additional financing, and has lost income from the sale of the assets, which further increased her economic hardship. The complainant highlighted that PRASAC did not permit her to use the proceeds from land sales to repay the principal on her loan, which further worsened her loan repayment conditions. In June 2024, a court ruling required her to settle the debt or incur additional charges if she failed to do so. While the complainant wished to appeal the court's decision, she was unable to proceed due to financial constraints. She explained that she was unable to afford the legal fees associated with filing the appeal. Since June 2024, she has been unable to make any further payments to PRASAC, citing ongoing financial hardship. She reports struggling to provide basic necessities, including food, for her family, while facing constant pressure from PRASAC to repay the loan.

Negative impacts on children's education

According to the complainant, the loan from PRASAC has also negatively affected her ability to provide further educational opportunities for her daughter. The complainant stated that her daughter was forced to drop out of school due to a lack of financial resources to continue her education.

Threats and intimidation

Further, the complainant described being subjected to multiple incidents of threats by PRASAC employees to seize her additional plots of land, which are being held as collateral if the debt is not repaid. The complainant believes that the pressure from PRASAC's credit officers may be driven by the bonuses they receive for loan repayments, which could explain their intense efforts to compel her to repay. She further shared that these repeated threats from PRASAC employees to sell her additional land present an ongoing risk for her of losing valuable property that serves as a crucial source of income. When she submitted the complaint to CAO, the complainant requested that her personal information be kept confidential due to threats and intimidation. However, she agreed to disclose her information and the details of the complaint to PRASAC during the CAO's assessment trip in December 2024.

Unsuccessful efforts to resolve the situation

The complainant asserted that she has made multiple attempts to restructure her loan with PRASAC. However, according to the complainant, PRASAC has rejected her multiple requests to restructure, citing lack of management approval. The complainant indicated that she felt deceived by PRASAC's refusal to restructure the loan, because she was previously assured by PRASAC's credit officers that if she sold her property, she would be granted a restructuring of the loan. The complainant further attempted to negotiate with PRASAC to release the title of one of the plots of land being held as collateral, so that she can sell the land and use the proceeds to

raise capital for her business. However, she stated that this request was also denied. Additionally, the complainant reached out to the National Bank of Cambodia (NBC) to try to resolve her situation but was informed that they could not intervene, as the matter was outside of their control due to the ongoing court proceedings.

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

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

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

Loan restructuring policy

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

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

Loan assessment and collateral

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

Borrower complaints and grievance redress

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

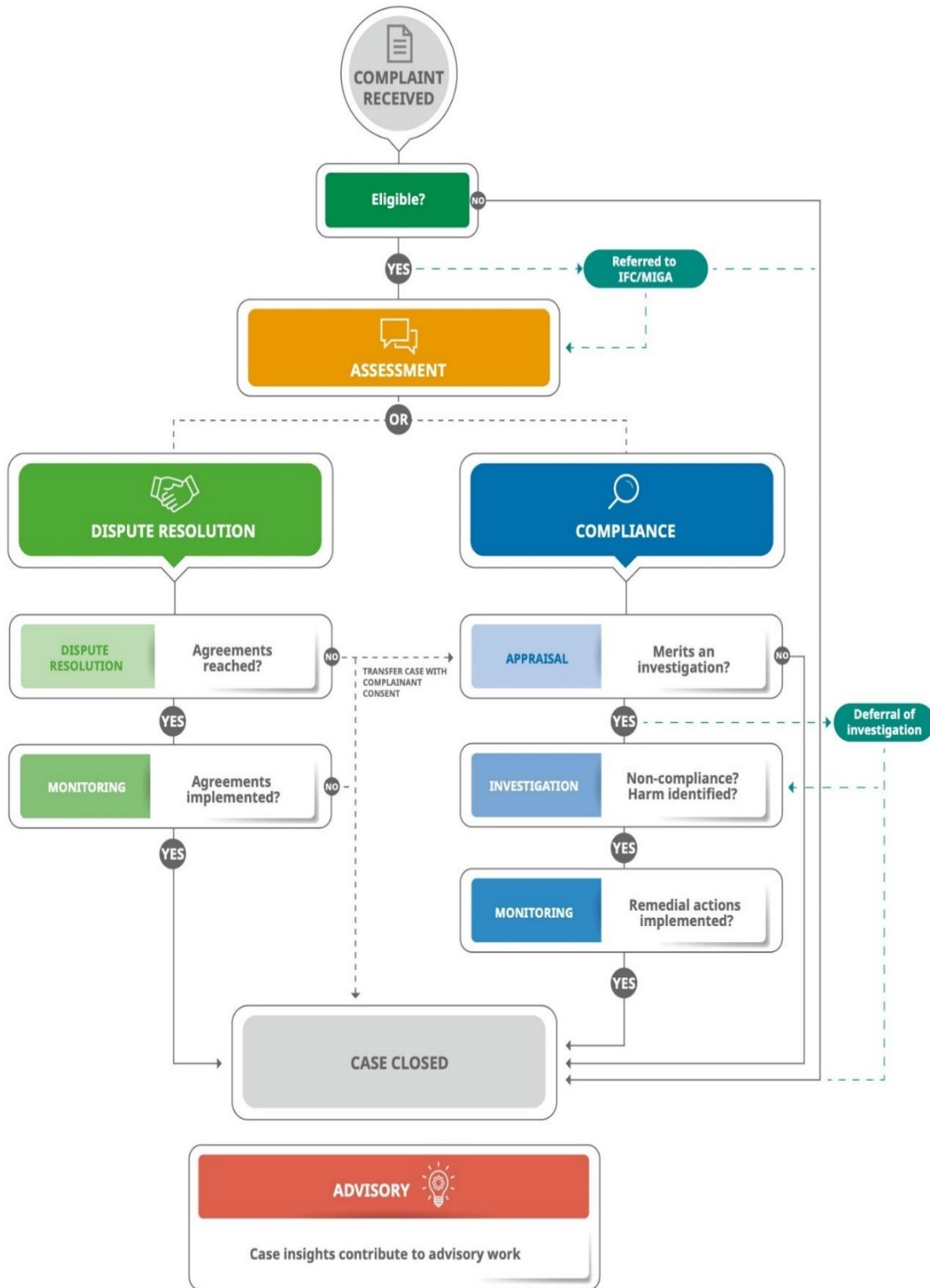
Educational efforts

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

6 Conclusion & Next Steps

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

Appendix A: CAO Complaint-Handling Process



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

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

OR

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

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

Step 6: **Conclusion/ Case Closure**