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October 15, 2020

Mr. Philippe Le Houerou
Chief Executive Officer
International Finance Corporation
2121 Pennsylvania Avenue, NW
MSN F 3K-300
Washington, DC 20433

Re: Follow Up Information Related to Covid-19 Response for Cambodia-based Clients

Dear Mr. Le Houerou,

Thank you for your response dated August 28, 2020, regarding our concerns about reports of human rights abuses stemming from widespread over-indebtedness in Cambodia's micro-finance and micro-loan sector, particularly during the economic downturn brought on by the Covid-19 pandemic. We appreciate your response and would like to follow up with a few more questions on issues raised in your letter and that came up in our research.

You noted in your letter that the International Finance Corporation (IFC) has approved US\$50 million in loans to Amret Plc. (Amret) and Hattha Kaksekar Limited (HKL) to "continue lending to productive small businesses" and "support Amret and HKL's working capital lending programs to Cambodian micro, small and medium enterprises [...]." Both loans were approved in June 2020. You also noted that the IFC commissioned a MIMOSA report to better measure the market outreach and saturation of Cambodia's micro-loan sector, with a report completed in March 2020. We requested a copy of the report and received it from MIMOSA on October 6, 2020.

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Your letter does not mention that the MIMOSA report, commissioned by the IFC, found Cambodia has the highest credit saturation rate among countries studied. The report notes that client protection is “uneven,” and there are “no clear [government policies] regarding aggressive sales and debt collection practices.” It notes that “self-regulation is insufficient,” and specifically notes the issue of seizing collateral (nearly always land in Cambodia) is a regular part of collection practices, calling this a “worrying finding” and notes “*client protection regulation needs substantial strengthening*” (emphasis in report). The report also notes the increase in loan size means households have less buffer in case of shock, which hit shortly after the report’s publication in March 2020 when lockdowns were put in place in response to the Covid-19 pandemic.

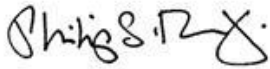
The MIMOSA report raises an alarm regarding a lack of sufficient client protection, notes the deficiencies of existing self-regulation in Cambodia’s micro-finance sector, and specifically raises the issue of collateral sales as a “worrying trend.” This report, combined with the [multiple research reports](#) issued by Cambodian civil society groups that have raised concerns about coerced land sales in Cambodia’s micro-finance sector, warrant further investigation and appropriate due diligence efforts by the IFC. Such efforts should happen prior to any additional IFC funding to ensure that any such financing does not contribute to coerced land sales in Cambodia’s micro-finance sector.

Finally, we would appreciate additional clarification on the role the Credit Bureau of Cambodia takes to help “avoid [...] unsustainable debt level among borrowers,” as you referred to in your response. As the March 2020 MIMOSA report notes, the number of borrowers increased by 14 percent between 2015 and 2019, while portfolio size increased by 158 percent over the same period. The fact that this trend is not new is supported by a [circular](#) published in June 2016 by MIMOSA, which found that in Cambodia “loan sizes have grown four times faster than client incomes,” referring to the period between 2003 and 2014. It adds, “When it comes to growth in loan sizes, there is simply no country that comes even close to Cambodia.” It is also worth noting the micro-loan portfolio size in Cambodia has grown by about 30 percent each year since the publication of that report, in part due to sustained IFC investment.

We have attached our additional questions in the Appendix and ask that you kindly respond by **November 5, 2020**. We wish to ensure that your relevant responses will be reflected in Human Rights Watch's reporting, and note that we may publish your responses in part or in whole.

I would like to thank you for your time and consideration. We would also appreciate, in addition to receiving your response to this follow up letter, to have a discussion with you and your relevant colleagues on this matter via conference call or other means. Please do not hesitate to contact Seashia Vang at vangs@hrw.org with any questions regarding our letter, and to provide responses to the information requested in Appendix I by **November 5, 2020**.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Phil Robertson".

Phil Robertson
Deputy Director of Asia Division
Human Rights Watch

CC:

Ms. Mary Porter Peschka, Director of Environment, Social and Governance department

Mr. Osvaldo Gratacos, VP for the CAO

Ms. Nena Stoilkovic, VP for Asia and Pacific

Mr. Vivek Pathak, Regional Director for East Asia and the Pacific

Mr. Kyle Kelhofer, Country Manager for Cambodia

Mr. Aaron Shane Rosenberg, Head of Public Affairs

Appendix I
Human Rights Watch Information Request to the IFC

We kindly request the following information from the IFC by **November 5, 2020**:

- 1) Given our findings and credible reports from Cambodian civil society organizations referenced in our first letter (raising issues regarding over-indebtedness and coerced land sales), can the IFC kindly provide:
 - a. a clearer, and more detailed explanation of the IFC's views towards providing additional funding to expand loan portfolios during this time.
 - b. further details explaining the IFC decision to pledge an additional US\$50 million in funding to the micro-finance sector without first securing significant enhancements in client protection, especially given the findings of the March 2020 MIMOSA that explicitly recommended that "client protection regulation needs substantial strengthening."
 - c. further clarification on what steps the IFC took to ensure that the economic shock of the Covid-19 pandemic in Cambodia would not lead to widespread seizures by MFIs of borrowers' collateral assets, as foreshadowed in the MIMOSA report.
 - d. further clarification on whether the IFC has conducted due diligence and investigations into coerced land sales in Cambodia's micro-finance sector. If IFC's own investigations and appropriate due diligence have not been conducted, why not?
 - e. further explanation of the IFC's rationale for deciding to continue its funding of a micro-finance sector without first securing specific reforms to protect the security of borrowers' land tenure.

- 2) We would appreciate further clarification on the role the Credit Bureau of Cambodia takes to help "avoid.... unsustainable debt level among borrowers":
 - a. Can the IFC provide details on what is considered to be an "unsustainable debt level among borrowers"?

- b. Does the IFC consider the current situation of Cambodian borrowers to meet that “unsustainable debt level”? If not, why not? If so, what is the IFC doing to alleviate the situation?