

# World Bank: Investigate Cambodia's Micro-Loans

Coerced Land Sales Linked to Predatory Lending

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**(Bangkok) - The [World Bank Group](#) should investigate alleged coerced land sales and other rights abuses linked to predatory lending and over-indebtedness in the micro-loan sector, Human Rights Watch said today. These longstanding problems have worsened during the economic crisis resulting from the [Covid-19](#) pandemic.**

An external report in March 2020, the Microfinance Index of Market Outreach and Saturation (MIMOSA), based on data provided by the World Bank Group's International Finance Corporation (IFC), found serious problems in [Cambodia](#)'s micro-loan sector. Civil society groups and investor-commissioned reports have corroborated these findings, which highlight the need for action to protect micro-loan borrowers in the country.

"International donors to Cambodia's micro-loan sector should not be feeding a system that is abusing the rights of highly indebted borrowers struggling during a public health and economic crisis," said Phil Robertson, deputy Asia director at Human Rights Watch. "The International Finance Corporation and other microfinance donors should conduct field investigations guided by human rights considerations before making further investments in the sector."

The MIMOSA scorecard, which measures market penetration for micro-loan borrowers, found that Cambodia's rate of credit saturation was the highest among the 11 countries it studied. Loan sizes in Cambodia have continued to rapidly grow over the years, resulting in the insurmountable over-indebtedness of borrowers. The MIMOSA report noted that client protection is "uneven," and there are "no clear [government policies] regarding aggressive sales and debt collection practices."

It reached the "worrying finding" that seizures of collateral, which most commonly is land in Cambodia, are a regular part of collection practices. It also concluded that "client protection regulation needs substantial strengthening" and noted that "self-regulation [of Cambodia's micro-loan sector] is insufficient."

Human Rights Watch, in July, [highlighted](#) concerns raised by Cambodian nongovernmental groups about rights abuses in micro-loans. Among the most pressing concerns are coerced land sales – when credit officers pressure borrowers into selling land to repay debts. The Covid-19 pandemic exacerbated the existing micro-loan debt crisis, causing severe hits to the country's most important economic sectors and the loss of hundreds of thousands of temporary and permanent jobs.

The government and micro-loan providers have failed to adequately address this crisis, instead providing insufficient loan "restructuring" solutions to financially distressed borrowers – frequently increasing their overall debt burden with significant interest charged on loan repayment extensions. Borrowers' rights to an adequate standard of living, notably access to adequate housing, are also not being met.

The loan restructuring program should suspend interest accrual, in addition to suspending debt repayments, Human Rights Watch said. The IFC should cooperate with the Cambodian government to establish a debt restructuring program that does not lead to increased debt burdens or require defaulting borrowers to sell land to repay their debt, with the aim of preventing coerced land sales.

Despite the serious concerns raised in the MIMOSA report, the IFC in June invested an additional US\$50 million in two main micro-loan providers in Cambodia, 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 [...]” The United States government’s International Development Finance Corporation [announced](#) an additional US\$50 million loan to HKL in October.

Human Rights Watch wrote [two letters](#) to the IFC relating to coerced land sales and the problem of over-indebtedness of Cambodian borrowers, exacerbated by Covid-19, and recommended that the findings of the MIMOSA report be reflected in its future investment decisions.

In its reply on August 28, the IFC recognized that “there are legitimate concerns about indebtedness” and “over-indebtedness” in Cambodia’s micro-loan sector. In a follow-up letter on November 5, the IFC stated that it had worked with the Cambodian Microfinance Association (CMA) to issue guidelines to CMA members that would limit any borrower from having more than three active micro-finance loans. However, a [MIMOSA report in 2016](#) found borrowing from multiple micro-loan providers – so-called “cross borrowing” – is not prevalent in Cambodia.

A bigger issue is the rapid growth of loan sizes. [Between 2004 and 2014](#), loan sizes grew four times as much as borrowers’ annual incomes. [Local civil society groups also reported](#) that borrowers are commonly eluding restrictions on the number of loans they have by seeking additional loans from informal lenders to repay micro-loan providers.

The IFC’s response also referred to the National Bank of Cambodia’s Financial Consumer Protection Unit, which introduced a hotline for borrowers. But [civil society reports](#) revealed that much of the country’s largely rural population either does not know about or refuses to trust complaints mechanisms run by the national government or the micro-loan providers themselves.

The IFC stated that its investments in the sector aimed “to ease the payment burden on their [clients’] borrowers, who have experienced disruptions in production and trade and declining revenues due to the pandemic,” and sought to facilitate entrepreneurial activities, commercialize agriculture, and improve “the overall living standards of people.” However, [civil society research](#) shows that most micro-loans do not go to generate business income, but instead are used for food, health care, and school costs to provide for a “[healthy and dignified life](#).” A [recent survey](#) showed that the most common reason for borrowing during Covid-19 has been to repay other debts.

The IFC said it was conducting due diligence, through assessments, and monitoring how lending practices and borrowers’ protection measures are being carried out. However, the IFC did not specify how it dealt with non-compliance by a client. Many of the IFC’s clients have come under scrutiny in [various civil society](#) and [media reports](#) that indicate predatory practices toward financially distressed borrowers.

In its responses to Human Rights Watch, the IFC did not provide concrete measures to translate the MIMOSA report’s findings into the IFC’s investment decisions in Cambodia. Rather, the IFC merely stated that the report “will inform follow-up consultations during the year on further mitigating issues related to high-risk revolving loans.”

“If the IFC is serious about protecting Cambodian micro-loan borrowers, then it’s crucial that it sets clear benchmarks for their clients based on human rights standards, and establish independent accountability mechanisms to monitor compliance,” Robertson said.

Human Rights Watch has [repeatedly urged the IFC](#) to act in accordance with the [United Nations Guiding Principles on Business and Human Rights](#). The IFC and its clients have a responsibility to respect human rights and to prevent and minimize rights abuses. This should include robust systems for transparency, accountability, and remedy of any harm the projects might cause. The [IFC’s Sustainability Frameworks](#), informed by the UN Guiding Principles, set out the IFC’s commitments and clients’ requirements, assessing social risks and impacts of its investments.

“The World Bank is hardly a newcomer to Cambodia’s bad record on land seizures and rights abuses, so it should act immediately on these concerns of coerced land sales,” Robertson said. “The IFC and international donors to Cambodia’s micro-loan sector should urgently investigate alleged rights abuses, make their findings public, and call on the Cambodian government to address these problems before many more people lose their land and homes.”

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