



KINGDOM OF CAMBODIA  
NATION RELIGION KING



GIA Tower, 37<sup>th</sup> Floor, Sopheak Mongkul Rd,  
Diamond Island, Sangkat Tonle Basak,  
Khan Chamkar Mon, Phnom Penh, Cambodia  
(P.O.120101)

Tel: +855 85 555 777 / 16 555 777  
info@hbslaw.asia / www.hbslaw.asia

ក្រុមហ៊ុនមេធាវី អេចប៊ីអេស

Independent Forensic Report: Conduct of LOLC  
Employees in Relation to Loans in Default.

Prepared By: HBS LAW  
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## 1. Executive Summary

On May 3, 2022, Bloomberg released an article in relation to Cambodia's debt crisis alleging that the loan officers working for LOLC (Cambodia) Plc. ("LOLC") pressured a borrower to sell her land to pay back an outstanding loan to LOLC.

This Report has been prepared by HBS Law to present its findings with regards to:

- 1). the veracity of the Allegation (page 6-10);
- 2). LOLC's policies in relation to the loan collection measures and assess the extent to which they have been implemented it (page 10-15); and
- 3). to make recommendations as to how to respond to the Allegation and how to mitigate the risk of similar allegations being made in the future (page 15-16).

We have divided the Allegation into six components: (a) the amount of the loan (the "**First Component**"); (b) the purposes of the loan (the "**Second Component**"); (c) the statement made by Bloomberg that the loan officers showed up at night in the Customer's village telling her to go out and find money to repay the loan (the "**Third Component**"); (d) the statement made by Bloomberg that the loan officers pressured the Customer to sell her home and land to make a repayment (the "**Fourth Component**"); (e) the statement made by the Customer that the loan officers "came like they wanted to rob us" (the "**Fifth Component**"); and (f) The amount that she got from the sale of the property and the use of the proceeds (the "**Sixth Component**").

We found that:

- a). The First Component is likely true;
- b). The Second Component is untrue;
- c). The Third Component is highly likely to be untrue;
- d). The Fourth Component is highly likely to be untrue;
- e). The Fifth Component is highly likely to be untrue; and
- f). We were unable to assess the veracity of the Sixth Component.

With regards to the various internal policies relating to loan collection at LOLC, we found that LOLC appears to have well implemented such policies but that such policies could be strengthened to protect LOLC.

Last but not least, we have provided a few recommendations that LOLC might consider for their further action.

## 2. Introduction

### 2.1 Background

Bloomberg, a public news agency on 3<sup>rd</sup> May 2022, published a broad expose (the “Article”) on the microfinance industry in Cambodia, detailing what it considered weaknesses and abuses in the industry. The article alleges that loan officers (the “LOs”) employed by LOLC (Cambodia) Plc. (“LOLC”) pressured a borrower (the “Customer”) in October 2020 to sell her land to repay an outstanding loan (the “Loan”) to LOLC. The relevant portion of the article stated as follows:

*“One borrower who could have used some protection is a 47-year old widow named Nan who took out a \$4,500 loan from LOLC Cambodia three years ago to repair her one-room wooden house. Nan, who asked that her last name not be used because she feared retribution, stopped making her \$129 monthly payments after Covid-19 ripped through the country and her daughter lost her job as a garment worker. That’s when loan officers on motorbikes started showing up at night in her village in central Cambodia, telling her to go out and find money to repay them. When she couldn’t borrow any more, she says, they pressured her to sell her home and land to repay debt. She sold the property two years ago and moved in with her daughter.*

*“They forced me to go out to find money for them at night” and wouldn’t leave until she paid them, says Nan, sitting in a makeshift bedroom under a house built on stilts, protected from the elements only by sheets of corrugated metal. “They came like they wanted to rob us.”*

*LOLC said in an emailed statement that it never received any complaints from Nan and that it does not pressure borrowers to sell their debts.*

*Regardless, Nan says she sold her land for \$9,000, substantially less than the \$20,000 it was worth, because the loan officers told her she had to sell quickly. She says she used the proceeds to pay back LOLC Cambodia and others she’d borrowed from, and to settle another microfinance debt.” (the “Allegation”).*

The Allegation can be separated into the following components:

- (i) The amount of the loan;
- (ii) The purposes to which the proceeds of the loan were to be applied;
- (iii) The LOs showed up at night in the Customer’s village telling her to go out and find money to repay the loan;
- (iv) The LOs pressured the Customer to sell her home and land to make a repayment to LOLC;
- (v) The statement made by the Customer that “*They came like they wanted to rob us.*”; and
- (vi) The amount that the Customer received from the sale of the property and the use of the proceeds.

Because the Customer did not lodge a complaint with LOLC regarding the Allegation, the problem was unknown to LOLC until the Bloomberg published the Article. LOLC wishes to understand the factual

background to the Allegation and to test the veracity of the Allegation. For these purposes, LOLC has engaged HBS Law to act in the capacity of a third-party forensic investigator to investigate the background facts pertaining to the Allegation.

We were informed by LOLC that the Customer is a female named Moug Manan, and that the Loan was a five-year term loan for USD4,500 made in 2018 made through LOLC's Kampong Tralach Branch in Kampong Chhnang province (the "Branch"). She made timely payment of interest and principal for a certain period of time but then started to make late payments of the same.

## 2.2 Purposes of this Report

This report (this "Report") is designed to review and examine the Allegation through the methodology described below, to investigate the background facts and to test the veracity of the Allegation. In addition, this Report examines the relevant policies and guidelines of LOLC with regards to loan collection that were provided to us (the "Policies") and assesses whether the Policies were effectively implemented. Finally, this Report makes general recommendations as to how LOLC might respond to the Allegation and how it might avoid similar allegations being made in the future.

## 2.3 Methodology

### 2.3.1 Research Materials

We employed a qualitative research methodology since it gave us greater flexibility, a more insightful understanding of the background facts, and a more accurate means of testing the veracity of the Allegation. The term "qualitative research methodology" refers to the use of qualitative data, including interviews, respondent observations, and documents.

### 2.3.2 Interviews

The interviewees were:

- (i) **Former Financial Sale Advisor-SME** - a former employee involved after the Loan was in default;
- (ii) **Former Financial Sale Advisor** - a former employee involved before the Loan was made (in this Report the Former Financial Sale Advisor-SME and Former Financial Sale Advisor are together referred to as the "Former Employees"), and
- (iii) the management team, which consisted of the Chair of the Credit Committee, the Chief Risk Officer, the Head of Credit, the Head of Legal and Compliance, the current Branch Manager, the Head of Human Resources, and the Manager of the Social Performance Management Unit ("Management Team").

We attempted to interview the former Branch manager as well but he declined to be interviewed.

Since the Former Employees were in Kampong Chhnang and Kandal Provinces, and preferred not to be interviewed in person, we proposed to conduct the interviews with them via online calls. As a result, we were unable to properly assess their gestures, tones, and body language. The interviews were of a duration of around 45 minutes each and were conducted wholly in the Cambodian language.

Unlike the Former Employees, the Management Team was interviewed in person at LOLC's head office in Phnom Penh. The interviews with each member of the Management Team were of a duration of between 30 minutes to 1 hour and were conducted wholly in the Cambodian language.

In discussion with LOLC about the forms of the interview, we requested that we be permitted to record them, but we were informed that we could not do so.

We designed several opening interview questions (attached in the Appendix hereto) prior to conducting the interviews (the "Prepared Questions"). The Prepared Questions were not sent to the interviewees in advance. The Prepared Questions were asked spontaneously to mitigate against the risk of receiving pre-prepared responses that were not complete and true. In addition to the Prepared Questions, we also asked the interviewees a number of other questions that were dependent on their answers to the Prepared Questions in order to obtain as much relevant information as possible during the interviews.

Before the interviews started, the interviewees had been informed about the purposes of the interviews, which aimed to seek further information regarding the facts surrounding the Allegation, the interviewee's awareness of the Policies, and the extent to which the Policies were implemented.

#### 2.4 Limitations

Because one of the purposes of this Report is to investigate only the background facts related to the Allegation, we did not investigate whether similar fact-patterns to those that underly the Allegation may exist in relation to other microfinance institutions. Notably, we did not conduct any interviews with the relevant authorities or associations such as the National Bank of Cambodia and the Cambodia Microfinance Association to obtain their respective views on the Allegation or on loan collection policies generally in the Cambodian market.

This Report focuses on the strategies that LOLC uses to recover amounts owed from borrowers who have defaulted on their loans from the borrowers rather than on how LOLC is managed as a whole. Therefore, this Report does not cover policies and guidelines that are not relevant to the Allegation including, but not limited to, the selection process for hiring staff.

### 3. Findings

#### 3.1 To Test the Veracity of the Allegation

The Allegation has been divided into six elements as provided above. This section discusses and aims to test the veracity of each element of the Allegation by using the information we have acquired from the interviews of the Former Employees and Management Team.

##### 3.1.1 The Amount of the Loan

In relation to the amount of the Loan, Bloomberg has reported that the amount was **USD4,500**.

When the interviewees were asked about the amount of the Loan amount, the majority of them provided consistent information that the amount was USD4,500. Three of them provided the approximate amount of USD4,000. All of the interviewees provided the same responses that the Customer made a monthly payment of around USD 120 for both principal and interest amounts and the Chair of Credit Committee added that the loan was made in 2018 and she made a full payment to LOLC on either October or November of 2020. Some of the interviewees also mentioned that the Customer had previously borrowed money from LOLC, possibly around USD500, in 2014. In other words, the Customer was a long-time customer before the Loan was made.

Based on the information made available to us, it appears to us that the amount of the Loan reported by Bloomberg is likely true.

##### 3.1.2 Purposes of the Loan

In relation to the purposes of the Loan, Bloomberg has reported that Customer took out a USD 4,500 loan from LOLC to **repair her one-room wooden house**.

We asked the Former Employees, the current manager of the Branch, and the Chair of the Credit Committee whether they were aware of the purposes of the Loan that made available to the Customer. They all replied in a similar manner, stating that the Customer borrowed money from LOLC to pay off debts owed to other creditors (being private individuals and financial institutions) and to purchase a new motorcycle. The Former Employees mentioned that the Customer owed money to her uncles, the village chief, other individuals, and microfinance institutions. We have also looked over the Customer's Loan Request Application dated 1 August 2018, which reveals that the Loan was intended for the purchase of a motorcycle and the investment.

Based on the information made available to us, it appears to us that the statement made in the Allegation regarding the purposes of the loan is untrue.

##### 3.1.3 The Loan Officer Showed Up at Night in Customer's Village Telling Her to Go Out and Find Money to Repay Them

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In relation to this aspect, Bloomberg reported that the LOs showed up **at night, and told the Customer to go out and find money to repay them.**

When the Former Employees were asked about the frequency and the time(s) at which they visited customers after default, they provided similar answers that before they visited a customers' home, they would make at least two or three calls to the customer to arrange the schedule and to inform/remind the customer that they planned to visit the house on the specific date. They further stated that they did not visit the customers' homes on the weekends unless authorized by their supervisor.

Regarding the Customer's case, the Former Financial Sale Advisor stated that after the default, he visited the Customer's house alone and informed her and the village chief in advance about his presence on a certain date. He added that he went to the Customer's house three times per month at around 4:30pm and had not stayed there beyond 5:30 pm or 6 pm. He stayed until this time because he wanted to wait for the Customer's daughter, who left from her workplace, to inform her about the late payment because she was the only one who provided financial support to the Customer's family. He emphasized that he had never told the Customer to go out and find money to repay LOLC as reported by Bloomberg. In contrast, he explained to the Customer that the consequences of late payment would be to have a negative impact on her credit history and her ability to borrow from financial institutions in the future.

According to the information that we obtained from the interviews, it appears that the statement in the Allegation that the LO showed up **at night, and told the Customer to go out and find money to repay the Loan)** is highly likely to be untrue.

#### 3.1.4 Pressure from the LO on the Customer to Sell Her Home and Land to Make a Repayment to LOLC

In relation this aspect of the Allegation, Bloomberg states that the Customer had said that **"they pressured her to sell her home and land to repay debt."**

When the Former Employees were asked whether there is any training in relation to the approach that they should adopt in collecting from customers who are in default under loans, they provided similar responses that LOLC has provided such training. They added that they were instructed not to go to a customer's house outside of business hours and that they should seek advice/instructions from the manager of the Branch if any problems or issues arose that they were unable to resolve.

The Chair of the Credit Committee noted that employees may follow up with customers through phone calls or home visits to remind them of the payment due date or to inquire about any payment-related concerns. He added that, for loans in default, employees are typically instructed to negotiate with the



customer, ask them to understand their conditions, and maybe reschedule the payment depending on their payment capacity.

The current manager of the Branch stated that employees who deal directly with relevant customers are advised not to confront them if they display aggressive behaviours and to leave the customer's house if the customer curses or uses bad words or starts arguing with them. He continued by saying that in case the employee is unable to negotiate or communicate with the customer to find the proper or acceptable conditions, the head of loan officers for the Branch would then step-in to deal directly with the customer.

Specifically, in relation to the Customer's case, once asked whether the Former Employees had pressured the Customer to sell her home and land to make a repayment to LOLC, the Former Employees rejected this accusation and said the same thing that they had never advised or pressured the Customer into selling her land and/or house to make a full repayment to the LOLC. The current manager of the Branch endorsed the statements made by the Former Employees in relation to the same. Notably, he made it clear that the Customer had just sold the front portion of the property only; her house remained and she is still living there.

The Former Financial Sale Advisor emphasized that the Customer sold the front part of her land without any pressure from LOLC or any of its employees. He continued that she owed money many people and financial institutions and needed the money from the sale of the property to pay off all of her debts. He added that while he was working at LOLC, the Customer made late repayments almost every month and whenever the payment date was overdue, he attempted to understand the reason why she made late repayments. He went on to add that LOLC had restructured her debt such that she had to pay only the monthly interest for a period of six months.

The Chair of the Credit Committee corroborated that the Customer had received the abovementioned restructure of the Loan from LOLC for a period of six months. He added that LOLC would have been happy to enter into another restructuring of the Customer's debt if she had requested one after the previous one was finished, but the Customer did not do so.

According to the information that has been made available to us, it appears to us that LOLC made an effort to offer the Customer many options for the restructuring of her monthly repayments in line with her circumstances and capacity. In addition, the information obtained from the Former Employees in the interviews indicate that neither the LOs nor anyone else at LOLC, behaved in the manner suggested by Bloomberg in asserting that **"they pressured her to sell her home and land to repay debt."** We should note that the Customer's house remains and she is still living there. In this regard, it appears to us that Bloomberg's assertions are highly likely to be untrue.

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### 3.1.5 The Conduct of the LO and the Statement “They came like they wanted to rob us.”

In relation to this aspect, Bloomberg reported that the Customer had stated “**they came like they wanted to rob us.**” When the Former Employees were asked about how they acted towards customers in general, they replied in a similar manner that they acted in a polite and delicate manner because they were trained and instructed to be kind to every customer and to refrain from getting into arguments with them. The Former Financial Sale Advisor added that he usually visited customers to maintain good relationships with them, to ask about their business operations, to ask about their income, and to remind them with regards to payment dates. He continued by saying that he usually visited customers one day prior to the due date. In relation to the Customer’s case, he said that by the time he left LOLC in 2019, the Customer had never made a late payment and that from his perspective, Customer was a good customer with a good credit-standing and reputation. He stated that he had a very good relationship with the Customer.

The Former Financial Advisor-SME, in contrast to the above, had varied opinions about the Customer. He said that while he was working at LOLC, the Customer made late payments almost every month. He continued by saying that he went to see the Customer at her house three times per month at around 5:00 or 5:30 in order to find out why she made late payments. He added that he always had gentle conversations with the Customer and made an effort to comprehend her circumstances and situation regarding the late payment. He continued by saying that every time he paid a visit to the Customer's house, he informed the village chief in advance. He stated that he had never been aggressive towards the Customer and had never told the Customer that LOLC would confiscate or auction off her land or house. He emphasized that he always visited the Customer alone. This assertion conflicts with the Allegation, which implies that two or more people had visited Customer at the time by using the plural pronoun "They" in the Allegation.

According to the information that was provided to us, it seems to us that the Former Employees were kind and tried to comprehend the Customer's situation. The statement that “**They came like they wanted to rob us**” does not seem consistent with the way Former Employees were treating the Customer according to the responses they gave in the interviews. In this regard, it appears to us that Bloomberg’s assertions are highly likely to be untrue.

### 3.1.6 The Amount That She Got from the Sale of the Property and the Use of Proceeds.

In relation to this aspect, Bloomberg reported that “Nan says she sold her land for \$9,000, substantially less than the \$20,000 it was worth, because the loan officers told her she had to sell quickly. She says

she used the proceeds to pay back LOLC and others she'd borrowed from, and to settle another microfinance debt."

When the current manager of the Branch and the Former Financial Sale Advisor were questioned in relation to the use of proceeds and the amount of the proceeds, they provided similar responses that the Customer had used the proceeds to repay the debts of LOLC and other financial institutions. They both emphasized that the Customer sold just the front part of her land and sold it willingly without any pressure from any employee of LOLC. In relation to the price of the land that she sold at, they were not aware of the same.

According to the information that was provided to us, it seems to us that what Bloomberg reported in relation to a) the use of proceeds, which was to pay others she'd borrowed from and other financial institutions is likely true, and b) the information with regards to the price of the land she sold was unavailable to us, thus, we could not confirm in relation to this aspect.

### 3.2 To Determine What Policies, Exist with regards to Loan Collection at LOLC

#### 3.2.1 Loan Recovery Guidelines

LOLC passed a resolution on the use of an updated credit operating manual No. HO-2020/342 dated 16 March 2020 ("**Credit Operating Manual**") and a resolution on the use of an updated loan recovery guideline No. HO-2022/734 dated 2 June 2022, ("**Loan Recovery Guidelines**") executed by Mr. Sok Voeun, the chief executive officer ("**CEO**"). At that time, the policy that applied was the Credit Operating Manual. We note that it referred to a "loan recovery operating manual" mentioned in item 27 of the Credit Operating Manual and we requested a copy of that manual but were informed that the manual is constituted by Loan Recovery Guidelines. The Loan Recovery Guidelines describes the loan recovery process in detail and serves as an explanation to the Credit Operating Manual. In addition, the Credit Operating Manual contains some guidelines regarding loan collection in Annex 7 thereof but those guidelines are very general in nature and specify limited requirements regarding employee behaviour such as the requirement that employees do not apply pressure to customers. As (i) the requirements set out in Annex 7 are substantially covered by the Loan Recovery Guidelines (which are more extensive than those specified in Annex 7), and (ii) the Loan Recovery Guidelines likely reflect the instructions the Former Employees would have received from the manager of the Branch at that time, we have considered whether the conduct of the Former Employees complied with the Loan Recovery Guidelines. We would note that, according to the CEO, policies are required to be approved by the board of directors, whereas guidelines only need be approved by the CEO. The Loan Recovery Guidelines specify (i) Basic Principles to Implement for Loan Recovery, (ii) Solutions with

Client and Co-Borrowers, (iii) Liquidation of Assets and, (iv) Court proceedings. These are discussed in turn below.

(i) Basic Principles to Implement for Loan Recovery

The Loan Recovery Guidelines sets out the following basic principles below that employees are required to adhere to when they collect loan payments from customers.

- Dignity and respect of the customers is of paramount importance to LOLC;
- LOLC believes in following customer satisfaction and enduring customer relationships;
- Fair treatment and persuasion are corner stones of recovery mechanism;
- The basic approach for recovery is practical, unprejudiced and result oriented;
- Greater focus is laid on preventing an account from becoming NPA rather than applying remedial measures at the post-NPA stage;
- More considerate treatment should be given to borrowers who continue to make payments even after being classified as NPA;
- Legal action is considered only as the last resort;
- Reasonable notice would be given to borrowers;
- All interactions with borrowers would normally be at the borrowers' location or at the LOLC's office at convenient timings, to the extend possible, during the working hours of the LOLC.

We questioned the Head of Human Resources in relation to the training of new staff, especially the loan officers. She replied that the new loan officers have to go through the training at LOLC's head office for one week. She added that the training focuses on various topics including but not limited to LOLC's code of conduct, credit policy, client protection principles, customer service, dos/don'ts policy and the Loan Recovery Guidelines. She continued by saying that LOLC has a refresher meeting quarterly with the head of loan officers and the branch managers to obtain updates in relation to the issues or problems that may be arising.

When the Former Employees were questioned in relation to the training, they provided a similar response that LOLC did have a training after they got recruited as loan officers. They continued that they were trained about the dos and don'ts policy, the attitude toward customers and instructed to be nice with customers at all times whenever they come to discuss with the customers in relation to repayments. They mentioned that whenever they visited a customer's house, they always informed the customer in advance and they visited the customer's house only within working hours. The Former

Financial Sale Advisor stressed that there are occasional instances in which he visited customers on the weekend, but he first received consent and approval from his supervisor before paying the visit. We asked the current manager of the Branch in relation to legal action that the Branch might consider taking in order to recover on loans in default. He replied that since he has taken up the role as the manager of the Branch, there has been only one case in which legal proceedings have been initiated through the courts. He highlighted the fact that the approval of the board of directors is required before any legal proceedings are initiated through the courts. From our interview it appears that the initiation of legal proceedings for loan recovery are rare and treated as a matter of last resort.

According to the information that was provided to us, it appears to us LOLC has well implemented the relevant requirements.

(ii) Solutions with Customers

The Loan Recovery Guidelines state that when a customer misses the deadline for making a loan installment payment, the Financial Sale Advisor (“FSA”) responsible must go to meet them right away to find out why this occurred and to seek preliminary solutions to the problem. Employees are required to conduct themselves and act in accordance with the following<sup>1</sup>:

- Conducting a home visit

The Loan Recovery Guidelines state that a home visit is required to be made to a customer immediately after they miss their due date for payment — either on the same day or the next. The FSA is required to approach the customer calmly, and helpfully and once the FSA pays a visit to customer’s house, the FSA should adhere to the following guidelines:

- Set specific objectives for the meeting;
- Review loan documents and evaluate the customer’s actual situation;
- Treat each delinquent customer on a case-by-case basis;
- Evaluate the debts and living standard/situation of the customer;
- Study about the properties owned by the customer;
- Find out how he/she can resolve the problem. If she/he promises to pay, investigate from where and when the money is coming. A verbal agreement to repay means nothing unless the customer can prove that there is a clear source of funds/money;
- Document all steps and measures taken; and
- Monitor the customer closely after an agreement has been made.

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<sup>1</sup> We would note that the Loan Recovery Guidelines list other steps that are not included in the below as they are not relevant in the context of the Allegation.

It is notable that the Loan Recovery Guidelines do not appear to distinguish between different types of borrower. For example, it would seem prudent to send female loan officers to meet with female customers to mitigate against the risk of a female customer alleging that she felt threatened by male loan officers.

- Collect monies due

The Loan Recovery Guidelines state that when possible, an attempt to collect full payment from customers should be made, or at the very least, persuade them to make a partial payment (a reasonable sum would be sufficient to cover interest for the month plus 50% of the principal payment, with the remaining 50% to be paid before the next payment date).

- Staff Behavior at the customer meetings

The Loan Recovery Guidelines provide some behavioral requirements that employees should adhere to when they visit customer as follows:

- Do not panic and do not delay;
- Keep emotions under control: do not threaten;
- Meet at the customer's premises;
- Be precise on information needs and set timeframe;
- Do not leave until you have the customer's agreement to meet needs and deadlines.

- Deciding on action plan

The Loan Recovery Guidelines provide that if customers have serious and credible problem to make a repayment, an action plan shall be drawn up. This may be in the form that allows the customer to pay outstanding amounts over the following month, or over the next two months.

- Reassess customers

The Loan Recovery Guidelines require employees to conduct a reassessment of the customer's ability to repay and intention to repay and to assign them to one of the following categories: (a) can pay and want to pay; (b) can't pay but wants to pay; (c) can pay but won't pay; and (d) can't pay and won't pay.

- Formal warning letter

The Loan Recovery Guidelines state that three formal warning letters must be issued to a customer before a branch requests head office to initiate legal proceedings.

We questioned the Former Employees and current manager of the Branch in relation to the visits made to the homes of customers. They provided similar responses that before they visited a customer's home, they always informed the customer in advance about the purpose of the home visit (sometimes

to remind them in relation to the payment date and to seek the reason for late payment). The current manager of the Branch emphasized that he always instructed the loan officers and other staff under his supervision to always remain calm and to be nice to customers. He added that if a customer was late in making a payment, the loan officer should find out the reason why the customer is unable to make payment on time and if the loan officer could not deal or negotiate with the customer, the head of loan officers would then step-in to play a role in negotiating and offering alternatives for payments to suit the customer's actual situation. We note that no interviewees made mention of formal warning letters.

According to the information that was provided to us, it appears to us that LOLC has well implemented the relevant requirements.

(iii) Liquidation of Assets

The Loan Recovery Guidelines provide that the liquidation of assets can act as a solution to a customer's short term liquidity problems, and allows them to continue paying amounts owed to LOLC and maintain their good credit history. However, LOLC employees must not encourage or compel customers to liquidate their assets. Asset liquidation may only occur as required by Cambodian court. The Head of Human Resources stated that all new employees have to go through a training course and that they are instructed and advised not to force or compel customers to liquidate their assets to make a repayment to LOLC. The Former Employees emphasized this aspect and stated that they had never compelled their customers to sell their land or house to make a repayment to LOLC. The Former Financial Sale Advisor highlighted that he instead tried to understand his customers' situation and the reasons for late payment.

According to the information that has been made available to us, it appears to us that LOLC has well implemented the relevant requirements.

(iv) Court Proceedings

The Loan Recovery Guidelines provide that if a customer is determined by LOLC to have the ability to repay a loan, but will not, then LOLC shall take the customers to court to recover the owed amount. However, legal proceedings through the courts are to be initiated as a matter of last resort. Regarding the number of cases submitted to the competent courts, we questioned the Chair of the Credit Committee. In response, he said that LOLC has always done its utmost to settle the issues with customers outside of the court system and that it is extremely uncommon for LOLC to move forward with lawsuits against customers to recoup a loan. He continued that legal action would be initiated

only as a matter of last resort. He emphasized that LOLC has initiated lawsuits against only 0.01% defaulting customers.

According to the information that has been made available to us, it appears to us that LOLC has well implemented the relevant requirements.

#### 4 Recommendations

##### 4.1 Recommendations That LOLC May Wish to Consider in order to Mitigate Risks against the Similar Allegation

Based on the findings referred to in this Report, we would make the following recommendations:

- LOLC should review its loan collection policies from time to time to ensure that they reflect local and international best practices.
- LOLC should ensure that its loan collection policies are consistent. By way of example, the requirement that loan officers “not leave until you have the customer’s agreement to meet needs and deadlines.” Could give loan officers the impression that they are required to force a customer into submission which would clearly be inconsistent with the other requirements regarding behavior at home visits described above.
- Female customers should be assigned a female loan officer and where more than one loan officer visits a customer the majority of the loan officers should be females. In this regard we would note that preparing and implementing a proper Diversity and Inclusion policy is becoming a must for large corporates and financial institutions. In this regard, having more female loan officers not only helps address this issue but also helps LOLC be perceived as an institution that wants to achieve diversity and inclusion.

##### 4.2 Recommendations as to What LOLC Should Do with regards to Bloomberg in this Particular Allegation

We found that many components of the Allegation are likely to be untrue. In this regard, it would appear that LOLC has the following options:

- (a) Request Bloomberg to remove the article;
- (b) Bring legal proceedings against Bloomberg for (defamation) in Cambodia or the country where the report was published;
- (c) Inform Bloomberg that HBS Law has conducted the investigation and prepared this Report; and/or
- (d) Use the Cambodian media to publish an article regarding LOLC’s efforts to enhance its loan collection policies.

We would recommend that LOLC consider the abovementioned options with a public relations expert and we are not in a position to recommend the option that is most appropriately taken. However, it seems to us unlikely that taking options (a) or (b) would produce any positive results. There does not appear to be any



recording or other evidence of the behaviour of the LOs during their visits to the Customer and a “he said, she said” dispute is, in our experience, usually resolved in favor of the party that stands in the weaker position. On the other hand, if options (c) and/or (d) were selected, this could provide LOLC with the opportunity to demonstrate (i) its commitment to customer care, (ii) the fact that it has investigated this complaint even though it was not made through the established customer complaint channels and (iii) a willingness to invest time and money into revising relevant policies. By doing this, LOLC may be viewed as leading the market in customer care which should give it a strong advantage given the current sentiment towards the microfinance industry in Cambodia.

## 5 Qualifications

- 5.1 The Report is given exclusively to LOLC on a confidential basis and may not be used or relied upon by any other party or published or otherwise disseminated without our prior written consent.
- 5.2 Notwithstanding Section 5.1, LOLC may refer to the existence of this Report and to the fact that it was prepared by HBS Law.
- 5.3 We have made no undertaking and have no legal obligation to update this Report to account for any change or information acquired or becomes known to us after the date hereof.

we wish to thank you for engaging HBS LAW in this matter. Please contact us should you need any further clarification.

Yours faithfully,



## Appendix

1. Would you please briefly introduce yourself?
2. Could you tell us about your studies and work experience?
3. When did you start working at LOLC? Until what year? What was your first role at LOLC? When you first came to work, did LOLC have any training in relation to the existing policies?
4. Could you tell us why you decided to leave LOLC?
5. Can you explain how to keep in touch with customers or how to collect default loan from customers?
6. If the customer is a woman, is there any woman staff coming along to collect such default loan?
7. How frequently do you visit the default borrower?
8. By the way, did you know about Bloomberg alleging that a loan officer employed by LOLC pressured a borrower in October 2020 to sell her land and house to repay an outstanding loan balance to LOLC?