Calvert Foundation Call

S= Sherry  
T= Terry  
H= Hugh  
L= Lisa

T: Good morning Sherry, how are you?  
S: I’m fine, I’m fine. It’s good to hear you voice and it’s nice to have a voice, you know to be conversing with.  
T: Yes  
S: But, what I wanted to do actually is, and I want to thank you for taking time to give us a call.  
T: Thank you!  
S: Because we really do appreciate the level of serious diligence and efforts that you bring to this all. But what happens is that, I want to actually hand you, ask Lisa Hall, who is our executive vice-president and chief lending officer  
T: Very good  
S: who will still be much better informed about the whole lending process. I would like to get her to actually be the individual to help manage and respond to your questions and I do want to just let you know that we have a few of us here  
T: OK  
S: from the Calvert Foundation Team that are on hand just so that we can be accessible to answer and respond. And with that let me go ahead and pass you to Lisa.  
L: Good morning Terence.  
T: Good morning Lisa.  
L: How are you?  
T: I’m very well thank you and happy new year to you all.  
L: Yes, and same to you. We also wanted to be sure that you knew that because of the conference line that we are using related to the functionality of our conference call system that the call is being recorded.  
T: I think that’s a wise idea.  
L: OK. And, we wanted to have this call with the idea that we would put some closure on the issue and we are very grateful for your time this morning.  
T: Good.  
L: We have extensively reviewed your complaint and your questions and your research has been quite thorough and we admire the thoroughness of you research and the depth of your concern. I wanted to say as the person who is responsible for our portfolio, who oversees the portfolio that I am aware of the issues that you have raised and we are working very actively to address them. We share your goal of making microfinance as effective and efficient as it can be. And we are standing by our decision to invest in LAPO as part of this goal.  
T: So you will…,you will…  
L: And if I can just finish then I will give you an opportunity to speak  
T: Very good  
L: It’s very important to us that our investors are comfortable with their investments and feel confident about the use of their money and we want you to be happy, we’d like to offer to move your investment into another Calvert Foundation offering on the microplace platform or to provide you a refund.   
T: OK. I thank you for that and for giving me the option as well. Lisa, I would like to give you a little background as well. I have come to know LAPO through my brother who works with Shell in the Port Harcourt region. I am very aware of the poverty in the area. And as a matter of fact he’s related to me on a number of times how shocked he is with the situation there. That led me of course to investigate and to try and understand more about what’s taking place and more importantly as I think I mentioned to you Muhummad Yunus and other colleagues that are in the microfinance world that I’ve known for a few years have alerted me to the issue of the problems that microfinancing is facing now. The issues of transparency, the issues of fair return for ones risk as opposed to, as Muhammad Yunus referred to as the loan sharks that are now proliferating across the industry. Of course using the guise of providing service and the difficulty of providing the service and then above the nominal interest rate and this has led me then to explore with my brother and other colleagues this question of what is actually being provided and the services that are being provided which led me to invest in LAPO which then would give me a platform to raise these concerns. To raise them to Calvert as a fund manager and to other concerns. So, on the phone with me is also a colleague. We have been working together with five other colleagues, but there’s one colleague who is available today and who also has experience in the Nigerian Delta and his name is Hugh Sinclair. So, we will be asking a few questions and I guess I would like to begin with the simple question of who actually performed the due diligence because we know that LAPO has made an announcement as early as December that they’re going to reduce their interest rates to 2,5% , the nominal rate would go down from 3%. I’m interested in understanding who of your Calvert Group went to Nigeria to pay a site visit to LAPO. And when did they go and have you been back in the space of your first visit. And who, would it be you Lisa, is there another colleague that you would have used?  
L: So, as I think we’ve indicated in our written communication to you previously Calvert Foundation works with a network of sub-advisors that conduct our on-site due diligence.  
T: I see. So you would have used then a sub-advisor then to provide you with the information to provide you with the due diligence?  
L: Yes, that’s correct and again, we’re hoping that the purpose of this call is to really put closure to the issues and you know, you’ve been really great in terms of engaging on the issues and doing a lot of research here.  
T: Right.   
L: We feel like our written response which was quite extensive has addressed any questions that you might have about due diligence and we’re here to either refund you or move your investment because it’s very important to us that investors be happy with their investment and if in any way that you are unsatisfied with your investment here we are prepared to address that.  
T: Well what I find deeply concerning is the admitted 109% rate that LAPO has, in a very transparent way, reflected in Chuck Waterfield’s report on his audit. Do you consider 109% fair return for risk? I mean does that make sense, does it fall within the place of the 18 and 60 percent that Microplace has, as say their red line, because I guess what troubles me the most is the red lines that I feel LAPO has crossed and I don’t understand why these may not be a serious concern for Calvert.   
L: So, as we addressed in our written communication and as we stated previously on the call, we are aware of the issues that you’ve raised and we are working actively to address them.   
T: But you continue to invest and to work with LAPO?  
L: Yes, we are standing by our decision to invest in LAPO as part of our goal to make microfinance as effective and efficient as it can be. And we are aware of the issues and we are actively working to address them.   
T: And you are aware that they have no, that they are not legally registered as a bank, that they’ve been…  
T: Sorry  
H: Lisa, hello, I think you mentioned in your letter to Mr. Ward that the goal would be to secure this banking license by the year end of 2009. Could you tell us, has that taken place?  
L: Yeah, and we’re not in a position at this point to discuss the current ongoing due diligence, we feel like we’ve addressed the issues you have raised and that you are raising once again on this call in our letter and we are actively working with LAPO to make microfinance as effective and efficient as it can be and so..  
H: What does that actually involve? What are the steps which you are taking because obviously it’s very difficult to know if you’ve achieved the steps you’re taking if you keep the steps discreet. What are these steps? Because I don’t think that they were mentioned in the letter.  
L: Honestly, I don’t want to be rude and I’m sorry to interrupt but I do feel like we addressed the steps that we were taking in our letter, in our communication to you last month and I don’t think that it’s productive for us to continue to go through a detailed set of inquiries here around our due diligence and monitoring. We do think it’s very important for all of our investors to be comfortable with their investments. If you, and here I am speaking to Mr. Ward, if you are unhappy with your investment and would like us to transfer it into another offering or to refund you in full we are completely prepared to do that.   
T: Well, I guess, Lisa I’m left a bit perplexed because as an investor I think if these are issues and certain red lines were crossed and that you obviously intend and I understand the desire to work with LAPO to bring them into, shall we say, into the larger collective with the same spirit that many other MFIS that are working. What my concern is are these red lines and whether or not LAPO and you’re working with them will actually honor those very red lines that you’re hoping they will retreat from their 109% interest rates that they will actually represent their institution in the way that many of your other institutions are. And I just ask whether or not supporting them knowing full well the problems that the organization has that by supporting them do you risk Calvert, does Calvert risk being drawn into or perhaps tainted by what clearly had been fairly illegal practices. This is my simple concern. Calvert represents a number of funders, a great deal of investors, your due diligence obviously had been seconded out, I understand why and the amazing man hours that are needed , women hours to simply monitor organizations. My question in simply does Calvert confidently feel that LAPO has engaged in completely across the board, above board, legal practices, or are there deeper problems and should Calvert really take a position, take a stand. Both with the subcontractors that may have given you that advice or that due diligence that clearly you were given and may not have reflected reality and now that reality is in front of you, the fact that you continue with LAPO after all the warnings and need I tell you that there is even going to be a hearing on microfinance in the House [of Representatives] in the finance services committee in two weeks time. All of these issues are going to be laid on the table and where a funding organization like yourselves, your principal responsibility is not simply to move an investor like myself to another investment that I may feel more comfortable with but actually to ensure that the organizations that you are actually offering the public live up to the very expectations that are written and published and included in the MicroPlace placings, that speak of the 18 to 60% interest rates [interest rates stated on MicroPlace website]. I think that these are, this is a larger issue than simply, “*does Mr. Ward want to transfer his investment to another microfinance group, another microfinance institution”*. And so I just raise this because it also is a concern that I have raised with, and I will raise, with a colleague in the journalistic community, because I think it’s one of those, it’s a symptom of what’s going wrong in the system. And to simply say that everything is on track, that we’ve done our work, I thank you for your letter and Sherry’s letter that clarified that steps are being taken but the hermetic nature of describing the concerns and that there are simply steps being taken in no way reassures me that the practices that have been taking place in the [Nigeria] Delta are changing and my question is a moral question and whether or not you really truly believe those practices are changing or whether this augmentation of a point 5 percent reduction is enough to quiet all the criticisms that have surfaced because 5 percent. Sorry, 0.5 percent reduction would lower the so called interest rate from 109% down to 102%.  
H: I think Chuck Waterfield would be able to clarify that.  
L: If I could respond.  
T: Yes, please  
L: I think they key question is, do we stand by our process and do we believe that changes have been made. And the answer to both of those very strongly is yes, we again did walk through in great detail some of the progress that was being made and we do believe LAPO is taking measures to address some of the concerns that you have raised and that have been raised in our process. We firmly stand by our process, of both assessing and monitoring investments and you know, if the goal here is for us to stop lending to LAPO, we’re not intending to do that. We think wonderful that you’re so engaged in these issues and we thought it was important to have a conversation with you rather than simply just say ‘no comment’, an approach that some other investors may have taken. We respect the research and the engagement that you both have clearly undergone here as it relates to LAPO specifically and Calvert Foundation does stand by its process. The moral question of whether we think we have done our due diligence here, we stand firmly by that process and we’re happy to, you know, resolve this by saying that you have one perspective we have another perspective, we are standing by our decision and our practices, and I’m not sure what else we can do on this call to satisfy your concerns today.   
H: Lisa, could I just interrupt for one second here because you mentioned that you had addressed some of the concerns of Mr. Ward in his original letter. Just one which jumped out at me was, could you tell me how it is that, one of the clients that you claim is your own client of LAPO, also appears on the websites of two other microfinance funds both of which are based in Holland, all claiming that this is their client. Which is a very simple observation which was mentioned in Mr. Ward’s letter and was explicitly not addressed in the reply. Could you maybe just answer that one question?  
L: And again, I ‘m hoping that this is not gonna be a litany of kind of back and forth around details many of which we have addressed in writing in our letter to you.  
H: But not that one.  
L: I think that the illustrations that are presented on the webpage are meant to serve as examples and to give people a sense of the type of end borrowers that are being served by their investment and so that is consistent with, we don’t present directly in any way that the money is going directly to that individual but that it’s a client of the institution that is receiving your investment, and so you know again, we stand by our practices and our process and I am not sure what else we can do on this call that’s gonna satisfy your concerns because it does appear that your overall intention is for us to stop lending or to change something outside of our normal practice and process and we’re not prepared to do that.  
H: No, I understand that. And you’ve definitely made it clear that you stand by your process. But now, just returning to this point that Mr. Ward raised earlier of the interest rates of 110% and I think he also mentioned the very high client drop-out rate, and then we also have I think he drew references to the MicroRate reports which were obviously publicly available at the time of doing the investment. When you say you stand by your process do you, in light of what is described in the MicroRate report I think it’s something like nine times as chronic, extreme high uncontrollable client desertion rates, combined with the high interest rates do you genuinely believe that this is assisting the poor to be lifted out of poverty, because they seem to be deserting the institution at what MicroRate, an independent body describes as a chronic rate. Is this lifting people, are they being lifted out of poverty because they are no longer poor? Is that what you are suggesting?  
L: Again, I’m not sure how effective it is for us to go back and forth on these issues which we do believe we have generally addressed in our letter, we do believe that LAPO is making progress in the areas that are of particular concern to you. We’re working actively with them to address those areas of concern and those issues many of which were issues that you have raised, also issues that were identified independently and separately from any communication from you and we’re working to address the issues in a way that meets our mission, our goal of lifting people out of poverty through investment in microfinance and so hopefully that answers your question if it doesn’t I am not sure what else I can say on this call today. I again, am not really clear about the goal if the goal is for us to stop lending or change our practices in some way we are not prepared to do that today.  
H: No, I don’t think that that is the goal, I think the goal is to strive towards a solution which is beneficial for the poor.  
L: Which we completely agree with and we share that goal and we believe that the steps that we’re taking and the practices that are in place are in fact doing that. I also want to be sensitive to your time and your schedules and so if I could get a sense of what else we could, what other information we could provide today that would be helpful to you and a sense for, we have a hard stop shortly, I want to make sure that we’ve covered what we can cover in today’s conversation.  
H: Uhm, I mean I certainly have one more question if you can spare just a few more minutes. When Mr. Ward wrote this letter to you I don’t know that was late last year, were the comments and the discoveries that he was able to uncover new for you, or were you already aware of these things? Or would you also prefer not to answer that question?  
L: So, if I understand the question correctly I hope that I am addressing it properly is that our due diligence process reviews all aspects of the investment and all aspects of the borrowers that we’re making a loan to and we stand by that process.   
H: So Mr. Ward didn’t point out anything new to you? You already knew that from your due diligence? There was nothing new in Mr. Ward’s letter is that what you are saying?  
L: Our due diligence process is very thorough and we have identified a number of issues you know I honestly can’t say what was from your letter what was from our due diligence, I honestly cannot give you a direct answer to that at this time.   
  
Long silence  
  
H: Do you have any further questions?  
T: I guess I would have one last, just one last observation Lisa, because again this I didn’t go looking for this issue, it found me. And my visit to my brother and the Delta raised my awareness and then when I became aware of these rates you can imagine the say the unsettling effect that had. So, excuse me, sorry. What I wanted to say is that I came to this conclusion that I really wanted to understand more about how the funding was going into institutions like this that clearly have, well in my mind, and perhaps not in yours, but in my mind, as both a professor, as a man involved in finance, management consulting who’s been experienced in Asia, Middle East and also in the States, I just found it rather surprising, what I ask is simply this. Because in my experience I’ve also frequently had to rely on outside sources, on consulting groups to do diligence on my behalf but whenever I did see that the due diligence that had been done by the sub-contractor was not in keeping with the general reality I made sure that that sub-contractor was not, was held accountable for that erroneous picture that was created. And, I guess as a colleague of yours, who is in the same mission, hoping that the there is, that we share this mission of lifting people out of poverty, that those organizations, if we do subcontract out to, if they return with information that does not fit the reality and then we have to do double work to investigate and understand the true nature of the red lines that are crossed in whatever operation we are dealing with, then I would hope that this subcontracting organization is simply held accountable. Because that is an enormous problem if again you have been involved with LAPO for two years and only now they have started to reduce their rates then it means there was a big gap between knowing fully what was wrong and where we are.   
L: And you know, we very much share your commitment to improving the lives of poor people. We are an exceptionally mission driven organization at Calvert Foundation. And I think the fact that we have taken both careful time, careful thought, careful analysis in all of our due diligence for all of our transactions, is an indicator of our commitment to making sure that the investments that individuals are making really are helping to improve the lives of poor people. We stand by our process and our process includes you know very thorough, very careful due diligence and I’m not sure what else I can tell you to satisfy or address your…  
T: No, I guess my only issue was.. Well, you can go ahead, uhm.  
H: Sorry Lisa, when you were just referring to this very thorough due diligence that you do, in the case of LAPO, this was contracted out to a third party if I understand your process which you adhere to. Now can you clarify who that third party was even?  
L: So, you know, the inner workings of our process are really proprietary and we treat them as such we think we do a very good job of investing here and part of that is because of the excellence of our due diligence process and of our practices.  
H: And these partners that you deal with, these are the good partners and that’s part of your, the model which brings success.  
L: Yeah, and Terence what I was saying here is that Calvert Foundation engages a variety of partners not just our sub advisors but also we’ve been very actively engaged with the inter-creditor committee of investors that are involved with LAPO we have partners across the board and lots of sources of information that contribute to our overall due diligence process and so I really can’t speak to any one particular aspect of the many resources that we rely upon that has resulted in you know our incredibly strong track record around not just performance of investment but also of the mission that we’re…  
H: Yeah.. sighs  
L: So is there anything else that I can be helpful with today. I do want to be sensitive to, sorry, time is, … is here with us and we do have a hard stop. Is there anything else I can be helpful with today?  
H: Well I, yes, I just wanted to pursue that point a couple of more minutes further. Going back to this photograph, I know that it may sound like a very minor detail but the one thing that has in common, there’s a number of investors in LAPO as you’re aware, but the one thing that all the websites that have claimed that whatever her name is, er Martina something or rather, is their client. There’s obviously you, and one of the partners that you use I believe is Triple Jump, NOTS Foundation, is also invest via Triple Jump and ASN Bank, the ASN Novib Fund is managed by Triple Jump. And I believe you did your investment according to, I can’t remember which website it was, in late 2007 I believe it was. Please correct me if I am wrong at any point here. Now in early 2007 was actually the moment when ASN Novib did their investment also through Triple Jump into LAPO so we have the same fund advisor investing funds of two different funds, ASN Novib and yourselves, with an interval of about nine months I believe it was in between. It may interest you to know that during those nine months I actually was working at Triple Jump and was the relationship manager for LAPO and worked very closely with Grameen Foundation because after the first investment we discovered a number of anomalies mainly relating to the interest rates and the illegal capturing of savings, some of the topics that Mr. Ward mentioned. And we went on a very thorough and rigorous mission involving I don’t know how many consultants, maybe ten consultants, some months before you did the investment I believe this was in, we were there in March, February, July of 2007. So preceding your investment by quite some time and it was very well known actually what the situation was like in LAPO at that point. You only need to speak to, I am sure you are aware of Grameen Foundation, also in DC, you only need to speak to Grameen Foundation to discuss with them the extreme concern that we have, when they, it was actually Grameen Foundation, I believe Steve Wardle who originally discovered the actual interest rate that was being charged and this was very commonly known between us and Grameen, we were working together on this. So that is why it is somewhat surprising that some months after this information was all known about, very widely, I mean I can give you a list of the consultants who were involved that you did this investment. So it seems, it’s strange, were you aware of this information at the point of investing or did this information come to light afterwards? This is what is a bit unusual. Because I have every belief that you probably at the time believed what , that you were investing in an institution that was operating according to the terms laid out in your own mission statement that was helping the poor and everything. The question is, is was that the case? Do you have any communication with Grameen Foundation?  
L: Yes, and so I think that the issues that you’re raising are very important ones. We think that the concerns that you’ve raised are also significant, they’re not to be taken lightly.   
H: No  
L: We hear what you’re saying, we think that the both issues that you’ve raised in writing that we’ve responded to in writing and the issues that you’ve raised today, which are the same, similar if not the same, that we think these are very important issues. We also believe that we are working to address them, we’ve been working with other investors through an inter-creditor committee to address these issues . We think that there is progress that is being made and again all of the fundamental goal of trying to deliver microfinance to poor people in a way that lifts them out of poverty. So in some ways it sounds like we are actually quite aligned in our desire to address the problems at LAPO, to have processes and practices in place that work to again, ultimately serve poor people. Yeah, and I’m not sure what else I can say…  
H: Is this the task force to which you refer to? The one that was set up recently with Asad and, is this what you’re saying. This is the task force and the getting the new rating? Is this what you’re referring to, the steps that were being taken?   
L: Yes, it’s what’s described in our letter to you in terms of the investors that have come together to work to address some of the very issues that you have identified. I again, you know, am not sure what else we can say that would not be repetitive of what we’ve said already on the call. If there is something new that we can address? I don’t want to be rude and cut you off, I also again am sensitive to, we do have a hard stop in about two minutes.   
T: Well I wanted to thank you for your patience, for at least hearing our concerns, for actually allowing us to communicate with you which is again very, we really appreciate the fact that also Sherry you took time out of your day. I think you know when you wrote in your letter the sentence ‘ LAPO has been retaining profits earned in order to internally fund net worth required for formal banking license, this is not an uncommon strategy but one that we do not find advisable given the undue hardship to borrowers that you so amply document’. I am very happy that at least you see the gap between performance and your, shall we say, your operating practices that you would prefer to see in place. And that both Hugh and I are hopeful that you can, with your direct intervention and your advice, help to eliminate what had been abuses that clearly have gone beyond that red line that I spoke of and that I saw personally with my own eyes so I wanted to, I want to just simply say that thank you Sherry. And I just want to alert you to the fact that I don’t believe that this is going to be the first downgrading that is going to be taking place in the industry. I think that relying on the sub-contractors, Triple Jump in this particular case, you may want to revisit their due diligence, you may want to, I understand that you have to stand by your process but people are fallible and sometimes information that’s provided is not fully reflective and as a concerned citizen I just feel that this was a healthy conversation, that it brings the issue forward , that you now realize that, as I told you in two weeks there will be a hearing on Capitol Hill on microfinance and I think that you are going to see that this issue is going to be raised. Not LAPO in particular but the issue of where do we stand and what are the limits and where is that red line and I simply share this with you because I felt that lines have been crossed. I understand your position of internally hoping to reform the institution and if they treat their clients in a more reasonable manner then your efforts will have been positive ones. Let me thank you and if we have any follow-up questions would you be kind enough to agree that we could send you a note and speak to you?  
L: We’re glad to receive any notes that you forward to our attention.  
T: Thank you. And so I would like to again thank you and then Hugh had one last case that he wanted to just share with you. And again, I really want, Lisa, you Sherry, we’re all on the same side. We’re all hoping that institutions can move away from the temptation of extracting rather than providing service. And so I really want us to, you know, end this conversation with this idea that we are all positively working in that direction. We’re not trying to hold you out or any of that. Hugh had one last question he wanted to raise.   
L: And Hugh, it would be great if you have another issue that we haven’t been able to resolve today to go ahead and put it in the email as you mentioned you were gonna be in touch with us in follow-up.  
H: Yeah, no, Lisa, you just mentioned that if I had anything new because I think you seem to, that there was a sort of suggestion that maybe we were just going over old ground and repeating things, there was some.  
L: I’m off to, sorry Sherry has to move into another meeting and so if there is something that would require more extensive discussion and engagement at this point we should put it in an email and we’ll look forward to..  
H: It doesn’t require Sherry’s feedback and actually I believe you are recording this conversation anyway and so she could listen to it later. But I did have, there was a very interesting update recently with regards a trip that Grameen did to Benin City, because they had discovered a case of some fraudulent hiding of PAR data, and Grameen were kind enough to share the data with me and ask me if I could help them and work out what was actually going on. But the CFO was described by Melani Tollat at Grameen Foundation as almost criminally negligent when Grameen went over there and discovered that there had been deliberate falsification of PAR data. Now I wonder when you’ve been discussing this in your task force of working together, has this information been shared amongst the other member?  
L: So, as all the information that you provided, we are aware of these issues, we do have to cut the conversation at this point because I also have a stop, not quite as hard a stop but I also need to move to my next meeting. And so, we’re very appreciative of your having raised all these issues, the past issues, the issues that you just raised and we are working actively to address them.   
T: OK Lisa, so in following up… your email would be xxxxxxxxxx [incorrect email]?  
L: xxxxxxx [correct email]  
T: Ok, thank you  
L: Thank you very much  
T: Thank you so much Sherry, thank you very much and we’ll be in touch and Lisa we may drop you a further line about this. Obviously the more information you have the better you can do your work as well .  
L: Absolutely.  
T: And holding your clients accountable and also serving the clients like myself.  
L: Absolutely. Thank you very much.  
T: Good bye.