

Re: Introduction from xxxxx / DOEN

FROM: [Matt Flannery](#)

TO: [Hugh Sinclair](#)

Wednesday, March 11, 2009 6:58 PM

Hugh,

I appreciate your concern and will be able to take your call at 9 AM PST any of the following days in March: 13th, 30th or 31st. Our response will be to gather this data, as well as data from a number of places that we are already gathering from. For instance, we currently waiting on a rating from Micro-Rate which will report in detail about LAPOs social mission. Also, we are gathering data from LAPO itself to incorporate on a more detailed version of our site later this year. We will then cross-check your report with data we receive from elsewhere. Once we are certain of our conclusions, we feel free to share them with LAPO and with the internet public as well on our site. So, if you are comfortable with that, feel free to call me at xxxxxx at 9 AM PDT on one of those days.

Matt

On Tue, Mar 10, 2009 at 9:45 AM, Hugh Sinclair wrote:

Hi Matt,

Could I suggest we set up a time to speak by telephone? This is somewhat more serious than simply calculating interest rates in differing ways, and I would prefer to speak to you directly about this. Also, the matter is confidential as people's jobs on the inside of the institution are at stake. The fact remains that the interest rates paid by KIVA clients in Nigeria are closer to 100% per year rather than the stated rate. I suspect this is not due to subtleties in interest rate calculation methods.

Hugh Sinclair

--- On Mon, 3/9/09, Matt Flannery wrote:

From: Matt Flannery

Subject: Re: Introduction from xxxxx / DOEN

To: "Hugh Sinclair"

Cc: xxxxxx, "Premal Shah", xxxxxx

Date: Monday, March 9, 2009, 3:28 PM

Hi Hugh,

Thanks for your note. My guess is that the way that LAPO reports the interest rate to us on

our website is different than the way you calculated it. Most likely, LAPO reports it to us in a way that is generalized over their entire loan portfolio and thus more forgiving to them. Most likely, the way that you are calculating it is more accurate. Usually, smaller loans have higher interest rates than do larger loans, as you probably know. We are in the process of overhauling the way we calculate and report interest rates on the site to reflect the loan by loan differences so that lenders know more accurately the APR on a particular loan as opposed to a particular partner

Anyway, no need to be confidential. We operate under a rule of total transparency here. Feel free to share the concern in more detail with xxxxx and with myself as well. My next step is to pass this on to our West Africa portfolio manager so she can be aware of this as we overhaul the interest rate detail later this year.

Best,

Matt

On Mon, Mar 9, 2009 at 9:59 AM, Hugh Sinclair wrote:

Dear Matt,

[I think I just sent you a draft of this email - sorry, this is the complete email!]

Sorry for the delay in writing, I was actually speaking at a conference where Jessica was also speaking last weekend, so I managed to touch base with her briefly just to put a face to an otherwise unusual email!

By way of introduction, I am a microfinance consultant. I am an economist/MBA/ex-investment banker, but stumbled into MF 8 years ago and loved it. I've worked on turnarounds, with various MF funds, with platforms, rating agencies, assisting wealthy individuals/institutions to invest in MF, and done extended stints in the field in Mozambique, Argentina, Panama and Mexico. I know the peer-to-peer market quite well, and my recent assignment was with another company that DOEN had invested in who make MIS for MFIs, including a peer-to-peer version. Someone at KIVA (xxxxx I believe) has actually been in contact with one of the team at this company, called xxxx.

Anyway, the topic of this email is rather somber. I have also been working for a year or so in the broad area of transparency. As a practitioner, but also with extensive contact with the funding, or "developed" end of the MF sector, the lack of transparency is an ongoing problem. Tangible data is hard to obtain, as those responsible are naturally loath to hand it out, but in a few cases I have come across some quite worrying data. Recently this happened with a KIVA partner. I thus opened an account with KIVA and made two loans to women I knew of in this institution. According to KIVA the interest rate they would be paying is 24% and the moneylender rate in this region is approximately 120%. Alas this is not the case.

As you can imagine, this is sensitive, and I would appreciate a degree of confidentiality in this matter.

The institution is based in Nigeria, a country of operation not known for its transparency, and yet the prevalence of other "recognized" investors in the MFI, and the favorable rating report, may have offered some assurance to KIVA in selecting this as a partner. Alas there is an extensive herd-instinct with the investors, and even they themselves have little reason to avoid excessive interest rates - these make the investment all the more profitable or the loan all the more secure.

Anyway, I have no doubt that your team are entirely unaware of the true operations of this MFI. I have extensive experience in fraud detection, turnaround due diligence etc, and was on-site for weeks at a time with a team of people before I discovered it. There is no way a fund, who perhaps spends two days on-site, would have detected such problems, much less you, who are not investing but partnering.

However, the uncomfortable fact remains: I invested money through KIVA on the basis of an agreement to on-lend this at a certain rate. Not only did this not happen, but given the current scrutiny applied by the likes of the SEC in the US on any form of financial intermediation, this lack of control over the end funds would be extremely embarrassing. Fortunately I am a good friend of xxxxx and will always act in the best interests of the xxxx portfolio! The actual interest rate paid by the women is approximately 100% per year [...]. Their "normal" rate is 122% according to the Deutsche Bank model for calculating interest rates (something of a benchmark).

[...removed to protect identity of sources...]

Do not worry, this information is not yet public, and there are some simple checks that KIVA can do to verify if this suspicion is correct, and there are also some simple "tricks", or methods, that can assist you in the future to work out if your partners are lending at rates that are reasonable. At rates of 100% or so, there is no poverty alleviation, it is pointless, the poor remain poor, and a few individuals become rich.

You also need to check at least one Tanzanian partner I believe.

I applaud the work of KIVA to date, but microfinance is not the most transparent sector, and while capturing funds from the (US) public KIVA runs additional risks in ensuring the funds are used as described, and must ensure that all reasonable checks and balances are in place to ensure this.

If I can help in this regard, I would propose we have a chat, all contact details are below, and by all means contact xxxxx first, although he is unaware of the details of the institutions in question. I know [xxxxx], and also [xxxxx], and many of your partners in Latin America.

I hope this is helpful, regards from Amsterdam,

Hugh Sinclair

Van: mattflannery **Namens** Matt Flannery
Verzonden: donderdag 26 februari 2009 16:33
Aan: xxxxx
Onderwerp: Re: introduction

Anytime, let me know how I can help. I will await his email..

On Thu, Feb 26, 2009 at 5:49 AM, xxxxx wrote:

Dear Matt,

Hope things are well with you. With this mail I would like to introduce Hugh Sinclair to you. Hugh is a true microfinance expert and a nice person as well. He would like to contact you to discuss some potential problems that might include Kiva. I will ask him to contact you. Hope you will have a fruitful discussion. His contact is xxxxxxx.

Regards, xxxxx