**RE: question regarding one of your investments**

FROM:Annibale, Robert

TO:Hugh Sinclair

Monday, August 10, 2009 10:45 AM

Dear Hugh,

I believe that we may have met at one of the conferences where I think
you spoke or, perhaps we both spoke, but in any case I recall your name
as being long active in the microfinance sector. Thank you for your
interest in Citi Microfinance and I very much appreciate the compliment
coming from someone so experienced. Please note my direct contacts for
the future and should you be in London and can stop by to meet.

I too am glad that Transparency International will create the tools for
MFIs to present the APR or other indicators of all-in-costs for their
lending products. With Larry joining there will be a very experienced
senior team who know the microfinance sector and new participants very
well indeed. I have been on the board of the MIX and have wished that we
had the resources to even begin to tackle what I am sure requires a
different set of skills and focus, which I think TI will provide.

Thanks for raising some interesting points regarding LAPO. While I don't
think it would be appropriate to discuss an individual client, as such,
I welcome your input based on your direct experiences and associations
that have given you insights into the Nigerian market and as an
investor. As you mentioned, we have worked together with Grameen
Foundation in Nigeria and with LAPO. I have followed up on some of the
issues you raised with Grameen and others, as well as with our local
office in Lagos.

We, as with Grameen and a number of other partners and funders of LAPO,
would like to see microfinance play a positive and larger role in
Nigeria. This is likely to require capacity building of some key
functions in institutions, which Grameen is also committed to supporting
and guiding. There has been a good deal of communication between
institutions that would like to see many of such issues addressed and
resources deployed to ensure accuracy and transparency. Grameen and
others have updated us on this progress and we too will follow up in
greater detail.

Where are you currently based and, should you be in London after August,
please let me know and come by and meet with us.

Best regards, Bob

Bob Annibale
Global Director
Citi Microfinance

[www.citi.com/citi/microfinance](http://www.citi.com/citi/microfinance)

-----Original Message-----
From: Hugh Sinclair
Sent: 28 July 2009 22:38
To: microfinance@citi.com
Subject: question regarding one of your investments

Dear Citi,

I noticed with interest your investment in LAPO, in Nigeria, some time
ago, and have been a keen observer of financial institutions such as
Citi entering the microfinance sector. This demonstrates a certain
professionalization and maturity of the sector. I also noticed that such
supporting initiatives, such as Microfinance Transparency, are emerging
to provide additional re-assurance to investors about the integrity of
the sector.

I wondered if I could ask you about this investment. The reason is, I
have been working in microfinance for nearly a decade now, and am an
investor in the sector myself. I recently attended the ASN Bank Annual
General Meeting as a shareholder. The guest speaker was Godwin
Ehigamusoe, CEO of LAPO in Nigeria. I have visited this bank on a couple
of occasions. During the questioning after LAPO's speech about poverty
reduction, a question was publicly raised. The CEO was directly asked
how he was able to lift so many people out of poverty with interest
rates in excess of 100%. No credible answer was given, and an unplanned
pause was announced.

I found this claim interesting, and did some investigation, only to
discover that these rates are entirely normal at LAPO. I contacted
Microfinance Transparency, and sent them some loan repayment schedules
from LAPO, and they confirmed an interest rate of approximately 110%. I
can send these to you if you like. Upon further investigation, however,
it appeared this institution was operating illegally. MicroRate, who
provide ratings comparable to S&P or Moody's, of which I am sure you are
aware, had published two ratings on LAPO, one in 2005 and one in 2007.
On both ratings, publicly available (see links below), it was clearly
stated that the bank is illegally capturing savings from clients without
a license or adequate governance in place to ensure the safety of these
deposits:

<http://microrate.com/home/microrate-public-ratings> (2007 summary rating)
<http://www.ratingfund.org/ratings_completed.aspx> (2005 full rating)

In both ratings the extraordinary profitability of LAPO was mentioned on
a number of occasions, explicitly linking this to the high operating
margins. We are all aware of the misperceptions of interest rates in
microfinance, and that these are expected to be higher than those we are
accustomed to in "developed" countries for valid reasons, but LAPO is a
highly profitable MFI and the client desertion rate is chronic, which
does suggest that clients are not content at LAPO and drop-out at an
alarming rate. To quote some examples from the 2007 report:

"the client desertion rate remains high" (page 1) "Despite LAPO's
efforts to better meet their client needs, the borrower attrition rate
has increased to a very high 51%" (page 7) "Not surprisingly, those
branches with the highest client attrition rate also show higher
portfolio at risk ratios" (page 7) "Retaining their clients remains
however a big challenge" (page 10) "However, client desertion remains
high at 27% as at end 2007" (page 11)

It is also worth pointing out that the capturing of savings is in fact
entirely illegal, as stated in the Central Bank of Nigeria legislation
relating to such institutions:

"9.3 Non-Governmental Organization - Micro Finance Institutions
(NGO-MFIs): This policy recognizes the existence of credit-only,
membership-based microfinance institutions which shall not be required
to come under the supervisory purview of the Central Bank of Nigeria.
Such institutions shall engage in the provision of micro credits to
their targeted population and not to mobilize deposits from the general
public."

<http://www.cenbank.org/OUT/PUBLICATIONS/GUIDELINES/DFD/2006/MICROFINANCE>
%20POLICY.PDF

I noticed that you did this investment alongside Grameen Foundation, who
have also invested in LAPO and guaranteed other loans to the
institution, thus presumably they are aware of this. Mohammed Yunus
seemed quite clear in his critique of extortionate interest rates in his
Bali speech, and I was wondering if you found these rates acceptable?

Finally, I was wondering if you could clarify, in light of the current
financial crisis, the precise SEC regulation relating to US institutions
investing in Nigerian financial institutions that fail to comply with
their own legal requirements when such information was clearly and
publicly available at the time of investing. You announced the
investment in May 2007 I believe.

I would be delighted to discuss this matter further with you. Regarding
supporting documentation, I have a wealth of information on the subject.
And as a final, sobering thought, you may wish to review the recent news
from Syminvest regarding Nigeria entitled "CBN to Sanction Erring
Directors of Microfinance, Mortgage Banks" [CBN = Central Bank of
Nigeria]:

<http://www.syminvest.com/market/news/microfinance/nigeria-cbn-to-sanctio>
n-erring-directors-of-microfinance-mortgage-banks-/2009/7/27/1948

While I applaud the activities you are undertaking in this sector, it
does appear that the investment you made in LAPO, from an external
viewpoint, is neither ethical, legal or assisting the poor. Please could
you explain how this is compatible with your core mission.

Thank you very much,

Hugh Sinclair