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Lift Above Poverty Organization (LAPO)

Nigeria

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LAPO and Kiva

Kiva is suspending fundraising for loans from the Nigerian microfinance institution LAPO and refunding LAPO loans on

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Lending to the working poor through Kiva involves risk of principal loss. Kiva does not guarantee repayment nor do we offer a financial return on your loan.

[Loans that change lives](#)

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the site that have yet to be fully funded.

LAPO has been the subject of recent controversy surrounding its high return on assets and high interest rates. Kiva began a preliminary investigation to answer many of the questions raised about LAPO's social mission and has begun to receive important information from the institution. Until we're able to confirm a clear plan and demonstrable progress on key metrics regarding LAPO's social mission, we've chosen to take the prudential step of pausing the institution from further fundraising on Kiva.

What does this mean for existing Kiva lenders? Currently fundraising loans that have not yet been fully funded will be refunded to lenders. Existing loans that have been fully funded will be paid back to Kiva lenders as each LAPO borrower makes their regular payments. In addition, new loans from LAPO will not be added to Kiva.

Background Information (Original Language from LAPO)

In the 1980s, Nigeria experienced a sharp increase in the spread and intensity of poverty as a result of the Structural Adjustment Program (SAP) implemented by the Federal Government. In this context, in 1987, Mr. Godwin Ehigiamusoe, filled with vision and passion, set up LAPO in Ogwashi – Uku, Delta State, Nigeria, to lift its beneficiaries out of the grip of poverty.

Vision

LAPO's vision *is to be a first choice microfinance institution delivering responsive financial services while meeting the expectations of all stakeholders in a sustainable manner.*



Field Partner: Lift Above Poverty Organization (LAPO)

Field Partner Due Diligence Type: Full Due Diligence

Field Partner Risk Rating:

Time on Kiva: 60 months

Kiva Entrepreneurs: 8596

Total Loans: \$4,976,700

Interest & Fees are Charged Yes

Portfolio Yield: 82.90%

Profitability (Return on Assets): 8.8%

Average Loan Size (% of Per Capita Income): 12.11%

Delinquency Rate: 0.00%

Loans at Risk Rate: 0.00%

Default Rate: 0.00%

Currency Exchange Loss Rate: 0.00%

Institutional Purpose

To address the economic powerlessness of a large number of Nigerians through the provision of financial services delivered at a cost – but in an effective and innovative manner. .

Goals and Strategic Objectives

- .To enhance the income generating capacity of the poor through access to flexible financial services
- . To embolden the poor, especially women, through self – esteem enhancing programs promoting gender equity;
- . To empower Community Based Organization (CBOs)
- . To promote healthy living through access to healthy living tips.

Core Values

Integrity
 Innovativeness
 Simplicity
 Excellence
 Customer – centeredness

Achievements and Awards

Over the years, LAPO has grown from a small, informal development organization into a big, formally developed institution. Today, LAPO is well equipped with the systems and structures necessary for delivering sound financial and social services for alleviating poverty and empowering the disadvantaged in Nigeria. LAPO's rapid pace of growth has been enhanced by local and international organizations who have been impressed by the quality of LAPO's services.

LAPO efforts to reach out to the disadvantaged and business-oriented people of Nigeria earned it the **Pro-poor**

[See all loans from this field partner >>](#)

KIVA FUNDRAISING STATUS

[Fundraising Status](#) Paused

[See all fundraising loans from this field partner >>](#) 

OTHER INFORMATION SOURCES

MIX Profile	View MIX Profile
	MFN - Microfinance
Network Affiliation	Network
Social Performance	
Reporting Level	Reporting to MIX
Client Protection	
Principles	Endorsed
Field Partner	
Website	View Website
Email Contact	None

**LIFT ABOVE POVERTY
 ORGANIZATION (LAPO)'S
 MISSION STATEMENT:**

Innovative Challenge Award in Microfinance (2002) by the Consultative Group to Assist the Poor {CGAP} and the **Global Excellence Award for Microfinance** {2006} by Grameen Foundation USA.

Products and Customers

LAPO provides savings, investment, and loan products to its clients in order to address the financial needs of low-income people of Nigeria. Its products include:

- Regular loans – to meet clients working capital needs
- Asset loans – to enable clients to acquire income generating assets
- Credit for shares – to enable clients to participate in privatization programmes
- Christmas business loan
- Farming loan
- Mandatory and voluntary saving products – to enable borrowers to form the habit of saving for future needs

LAPO's clients are engaged in micro and medium scale enterprises such as craftwork, food processing, merchandising, fabrication and farming.

Kiva Loan at LAPO

Since December 2006, LAPO has been working with Kiva to achieve the goal of economic empowerment and poverty alleviation through the provision of affordable services.

The Kiva loan at LAPO is a an individual loan product disbursed to clients who were previously being served as group clients. It is loan designed to help clients access capital for business operations, asset acquisition, farming, and business operation.

Unlike other loans at LAPO where the loan amount is tied to

To empower the poor to break out of the grip of poverty. Specifically, the MFI seeks to: 1) Enhance income generating capacity of the poor through access to flexible financial services 2) Embolden poor women through self-esteem enhancing programmes and promotion of gender equity 3) Empower Community Based Organization (CBOs) 4) Promote healthy living through access to healthy living tips.

WHY KIVA WORKS WITH LIFT
ABOVE POVERTY
ORGANIZATION (LAPO): 

*To create or expand interesting
product offerings (?)*

the loan cycle the client is in with LAPO, the Kiva loan amount is based on the size of the client's business. This allows clients who are able handle a larger loan to demonstrate their strength as a client as soon as they are ready, instead of waiting to move through each loan cycle with loans that are smaller than what is needed for their business. **They can use the Kiva loan to access the capital needed to make the change they want to see in their business.**

Why does LAPO charge the interest rate it does?

LAPO charges the interest rate it does in order to cover its operations and financing costs. Each of LAPO's 227 branches, placed in areas convenient for client services, have to have a power generating set to maintain electricity. This is very expensive to purchase and operate, and contributes significantly to LAPO's high operating expenses.

In financing, LAPO takes funding from many different organizations. While Kiva offers funds to LAPO at 0% interest in US dollars, other lenders provide funding at an interest rate and sometimes in foreign currency like US dollars. Loans like this end up incurring two interest elements, the foreign exchange risk and the interest rate.

Why does LAPO believe in trying to reach self-sustainability?

LAPO believes in sustainability in microfinance because microfinance is not a short term fix. Today, there still are a lot of people in Nigeria who do not have access to the formal financial sector. The provision of microfinance services remains the only means of reaching these underserved populations now and in the future.

Charging the high interest rate that LAPO does allows LAPO to progress towards self-sustainability, which helps ensure that LAPO Nigeria can continue to serve the poor even if funding from outside sources becomes unavailable. [A Note from Kiva](#)

Some questions have been raised about LAPO recently in a [December 2009 report](#) by Planet Rating and a [recent New York Times article](#).

Transparency is one of our core values here at Kiva, so we made sure to respond [on our blog](#). But we also wanted to share a more detailed response here on LAPO's partner page, sharing the answers we have and the questions we're still looking into.

As part of this effort, we're also scheduling a Kiva team member to perform supplemental due diligence on-site in Nigeria. We'll post updates as they're available.

In the meantime, our initial findings are posted below:

An Update from Kiva (4/29/10)

1. How much interest and fees does LAPO charge their borrowers?

To measure the cost of both interest and fees, Kiva uses [Portfolio Yield](#) data from MIX Market, the industry source for financial data on microfinance institutions (MFIs). This measures the overall yield on an entire loan portfolio for a particular microfinance institution. The data is generally based on audited financial statements and not on representations made by the Field Partners.

<http://www.mixmarket.org/mfi/lapo/data>

According to MIX Market, LAPO's overall portfolio yield grew from 55% in 2007 to almost 83% in 2008 (unadjusted for inflation).

Why do we use Portfolio Yield rather than interest rates? The short answer is that it can be based on audited numbers and it's straightforward to calculate all at once for the entire portfolio: you take the total revenue from the loan portfolio for the microfinance institution (interest and fees) and divide it by the average value of the loan portfolio.

In a perfect world, we would also supplement the Portfolio Yield information for the entire MFI with the Effective Interest Rate information *for each particular loan*. Currently, that level of tracking isn't possible with the Kiva Platform.

That said, Effective Interest Rates are tracked by ratings firms like Planet Rating, which issued a December 2009 report on LAPO (they've updated their numbers more recently as well, the results of which we've included here).

In their report, Planet Rating gave an indication of what Effective Interest Rates would look like when only interest rates and fees were considered - in other words, without taking [mandatory savings](#) into account. For LAPO, Planet Rating estimated this rate to be around 72.4%; this was down from 85.3%.

However, Effective Interest Rates should reflect mandatory savings for a particular loan. In addition to providing a way for members to save money, mandatory savings also provides cash collateral to secure each loan. When taking

mandatory savings of 20% into account, the Effective Interest Rates for LAPO increases to 125.9%.

Since then, Kiva has been informed that LAPO has dropped its mandatory savings rate back down to 10% from 20%. This was partially due to requests from LAPO lenders, of which Kiva is part, because of concerns about effective interest rates.

2. Why are interest rates in Nigeria higher than average?

There are a few reasons why interest rates in Nigeria are higher than those in many of the other countries in which Kiva's Field Partners operate.

Operating costs in Nigeria are high due to a number of reasons, including infrastructure costs and problems with the power supply. As a result, LAPO must equip all branches with generators to support operations. Data from the MIX for Nigerian MFIs shows that in 2008, operating costs in Nigeria are almost 47% of total loan portfolio.

(http://www.mixmarket.org/mfi/benchmarks?mix_region__c=All&country__c=Nigeria¤t_legal_status__c=All)

Local Inflation rates impact the cost of doing business: from staff expenses to financial costs. Nigeria's inflation was over 11% in 2008 (<https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html>) As a result, LAPO had financial expenses equal to 13.3% of its average portfolio in 2008.

3. Are Nigerian borrowers finding LAPO's rates competitive?

This is an area that Kiva is examining closely. There are indicators both ways:

LAPO appears to have successfully attracted many new

clients over the past five years. There are over 200k borrowers, according to the latest data from MIX.

LAPO rates appear to be competitive. For example, the LAPO borrower interviewed for the New York Times article indicated that she had found LAPO's loans competitive: "Anita Edward said she has borrowed money three times from LAPO for her hair salon, Amazing Collections, in Benin City, Nigeria. The money comes cheaper than other microloans, and commercial banks are virtually impossible..." (<http://www.nytimes.com/2010/04/14/world/14microfinance.html?pagewanted=all>)

At the same time, the "drop out" rate for all LAPO clients raises questions. One indicator of whether clients are satisfied with an MFI's services is the drop-out rate of clients. A 2008 report indicates that LAPO had a 49% drop-out rate. However, this is the drop-out rate of all clients including savers who may drop-out by using their savings for an intended purpose. We are now looking to clarify the actual drop-out rate for only borrowers.

4. Even though costs are high, LAPO still earns a high Return on Assets. Does that mean that their interest rates are too high?

Return on Assets (ROA) is defined as the net income of an MFI divided by its average assets. LAPO had an ROA of 14.7% in 2008. This ROA is significantly above average; for Kiva's entire portfolio, our latest data shows that the Return on Assets (ROA) across all of our Partners is approximately 0%.

Considering LAPO's social mission of serving Nigeria's poor

and unbanked, we've grown comfortable over time with their approach:

LAPO is a non-profit entity and does not distribute dividends to shareholders. Earnings remain with LAPO as indicated by the fact that its equity, used to support its operations, has increased from USD \$1.5 million to \$8.3 million between 2004 and 2008. (<http://www.mixmarket.org/mfi/lapo/data/balance-sheets>)

Increased equity generated by its ROA has allowed LAPO to grow its services to cover more of Nigeria's under-banked population. It is important to note that the equity generated by LAPO's ROA is leveraged with financial debt to serve more clients. LAPO's ratio of debt to equity was almost 3.8 in 2008 meaning that a dollar of equity could be used to achieve over four dollars in support for clients. This has allowed LAPO to generate the results below (taken from MIX data), showing a significant increase in the number of offices, active borrowers and the size of the loan portfolio between 2004 and 2008.

	2004	2005	2006	2007	2008
Offices	-	53	64	111	171
Number of active borrowers	29,812	43,699	84,006	129,269	200,115
Net loan portfolio	1,848,266	3,312,288	7,733,722	16,123,144	25,706,215

Nigeria's top 3 MFIs appear to have embraced a similar strategy of using profits to grow their organization. The two other large Nigerian MFIs (DEC and SEAP) have ROAs of 13.88% and 14.55% respectively. This is in line with LAPO's ROA of 14.7%.

LAPO borrowers who receive funding from Kiva are given better terms than usual.

Kiva Loans have a grace period of a month, as opposed to the normal 2 week grace period. Also, Kiva Loans offered by LAPO allow borrowers to pay back their loans monthly, versus the usual requirement of weekly repayments.

Most of all, LAPO has been able to use these new Kiva Loans as a way to offer individual loans. Historically, first-time borrowers have had to participate in several group loan cycles before being eligible for individual loans. With LAPO's Kiva loan, borrowers in groups are able to qualify for individual loans ahead of schedule.

5. Are LAPO borrowers aware of the interest rates they are paying?

Interest rates are generally explained to clients in terms of the flat rate they will be paying per month (e.g., 2.5% per month flat). This is a common method of calculating interest in Africa and is used by nearly all MFIs in Nigeria, Kenya, Uganda, Tanzania, Ghana, etc. Clients are often explained the interest they will be charged in terms of the installment amount they will have to pay and the total amount of interest and repayments over the life of a loan.

To help protect borrowers that work with Kiva MFIs, Kiva has started requesting that our Field Partners endorse the Consumer Protection Principles published by the Smart Campaign.

This campaign is designed to support transparency for microcredit borrowers. Endorsers of the campaign commit to using their efforts to extend micro-credit along the following

guidelines:

Avoidance of over-indebtedness

Transparent and Responsible pricing

Appropriate collections practices

Ethical staff behavior

Mechanisms for redress of grievances

Privacy of client data

LAPO has formally endorsed the campaign.

(<http://www.smartcampaign.org/about-the-campaign/campaign-endorsers>).

6. How robust is the quality of audits conducted for LAPO?

The Planet Rating report notes that the head of LAPO's audit firm, Mssrs. Ejoh Mojuh & Co, is related to a member of LAPO's Board of Directors. In addition, LAPO's subsidiaries are not consolidated with the Parent Company.

Kiva is encouraged to learn from LAPO's Executive Director that they have taken concrete steps to address this, by engaging a "Big 4" audit firm to audit their 2009 financial statements.

7. Is LAPO allowed to collect savings from its clients?

Planet Rating reported that LAPO "collects savings from its members but is not allowed to do so under this legal status."

To help rectify this, LAPO is in the process of becoming a microfinance bank. They have submitted their application to become a microfinance bank to the Central Bank of Nigeria and we understand from LAPO that an approval in principle has been granted with the awarding of a full license under review.

LAPO was founded in 1987 and registered with the Corporate Affairs Commission of Nigeria in 1993. To date, its regulatory status has not prevented LAPO from growing deposits to 39% of assets in 2008. Until the full license is granted though, there are several risks to keep in mind:

Savers may have their deposits unduly at risk.

Field Partners that collect savings without a license are more likely to experience government intervention and increased credit risk.

We believe that the ability to collect savings is very important for Kiva's Field Partners.

One of the key issues facing the world's under-banked is the lack of appropriate savings devices. Consequently, savings is an important financial service for the under-banked and the book "Portfolios of the Poor"

(<http://www.portfoliosofthepoor.com/>) shows that the working poor often use multiple savings and borrowing instruments to smooth income streams or generate lump sums for larger expenditures.

LAPO has captured savings for many years and the table below taken from the MIX shows an increase in deposits between 2007 and 2008 as well as a significant increase in liquid assets to support such savings between 2006 and 2008.

	2004	2005	2006	2007	2008
Deposits to total assets	26.50%	26.16%	30.92%	30.74%	39.34%
Non-earning liquid assets as a % of total assets	6.48%	22.31%	8.23%	15.08%	22.59%

Kiva will continue to monitor LAPO's conversion into a Microfinance Bank.

Repayment Performance on Kiva



	This Field Partner	All Kiva Partners
Start Date On Kiva	Nov 2, 2006	Oct 12, 2005
+ Total Loans	\$4,976,700	\$257,615,500
+ Delinquency Rate	0.00%	2.64%
+ Default Rate	0.00%	1.06%
+ Currency Exchange Loss Rate	0.00%	0.00%
+ Refund Rate	3.77%	1.32%

Loan Characteristics On Kiva



	This Field Partner	All Kiva Partners
Loans To Women Entrepreneurs	88.00%	75.35%
+ Average Loan Size	\$601	\$386
+ Average Time To Fund A Loan	2.79 days	3.44 days
Average Loan Term	7.97 months	9.23 months

Journaling Performance on Kiva



	This Field Partner	All Kiva Partners
Total Journals	9,044	124,232
Journaling Rate	73.11%	39.97%
Average Number Of Comments Per Journal	0.06	0.17
Average Number Of Recommendations Per Journal	4.98	4.46

Borrowing Cost Comparison (based on 2009 data)



	This Field Partner	Median for MFI	All Kiva Partners
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		Peers in Country	
Average Interest Rate and Fees Borrowers Pay (Portfolio Yield)	82.90%	37.50%	36.30%
Average Partner Return On Assets (Average Profitability)	8.8%	8.9%	-1.56%
Average Loan Size (% of Per Capita Income)	12.11%	12.60%	43.88%

Country Fast Facts



<u>Country:</u>	Nigeria
<u>Capital:</u>	Abuja
<u>Official Language:</u>	English was chosen as the official language. The other major languages spoken in Nigeria are Hausa, Yoruba, and Igbo.
<u>Population:</u>	123,337,822
<u>Avg Annual Income:</u>	\$1,188
<u>Labor Force:</u>	agriculture 70%, industry 10%, services 20%
<u>Population Below Poverty Line:</u>	60%
<u>Literacy Rate:</u>	57.1%
<u>Infant Mortality Rate (per 1000):</u>	74.18 deaths
<u>Life Expectancy:</u>	51.56 years

Field Partner Staff

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