**MICROCAPITAL BRIEFS | TOP STORIES**

*Want More? Subscribe Today*

This month our subscriber edition includes 14 pages brimming with the best microfinance news available, including many more briefs, event listings and summaries of current research. We invite you to request a free sample via info@microcapital.org.

**Royal Bank of Scotland Sells 4.6% Stake in SKS, Merrill Lynch Buys in for $12m**

Please see page 2 for coverage of this “MicroCapital Deal of the Month.”

**MIF to Place $5.8m in Nxtp Labs for Tech Start-ups in Latin America**

The Multilateral Investment Fund (MIF), a member of the US-based IDB (Inter-American Development Bank) Group, recently approved an equity investment of USD 5 million and USD 750,000 in technical assistance for Nxtp Labs, an Argentinian company that buy equity stakes of up to 10 percent in early-stage technology firms in Latin America. Nxtp also offers training, consulting and “demo days” that connect entrepreneurs with potential investors. Nxtp Labs intends to use a portion of the funds to increase its support for women entrepreneurs. MIF Senior Investment Officer Susana Garcia-Robles said, “we hope to encourage the creation of a more dynamic entrepreneurial culture in which entrepreneurs can take risks without being stigmatized if their first attempts fail.” May 1, 2013

**Nonperforming Microloan Ratio in Rwanda Falls to 8.5%**

The ratio of nonperforming microloans in Rwanda reportedly dropped during 2012 from 12 percent to 8.5 percent. During the same period, total assets in the microfinance sector grew from the equivalent of USD 127 million to USD 161 million, gross loans increased from USD 67 million to USD 95 million, and deposits grew from USD 73 million to USD 87 million. Challenges in the sector include “drawn-out” bureaucratic procedures, illiteracy, high operational costs, high interest rates and poor marketing. Rita Ngarambe, executive secretary of the 84-member Association of Microfinance Institutions in Rwanda, was quoted as having said, “We have put in much effort to help microfinance institutions to build capacity in their management especially in loan disbursement and collection…[and] to design products suitable for their clients.” April 29, 2013

**BBVA’s CRAC Nuestra Gente of Peru to be Merged into Confianza**

Regulators in Peru recently approved the merger of microbanks Caja Rural de Ahorro y Credito (CRAC) Nuestra Gente and Financiera Confianza, operations with combined assets equivalent to USD 462 million, 456,000 clients and 180 offices and kiosks. Before the transaction took effect, Fundacion Microfinanzas BBVA, which was founded by Spain-based Banco Bilbao Vizcaya Argentaria (BBVA) Group, held an 80-percent stake in CRAC Nuestra Gente, which in turn held a 49-percent stake in Financiera Confianza. The size of the stake that Fundacion Microfinanzas BBVA will hold in the new entity has not been disclosed. Fundacion Microfinanzas BBVA is also affiliated with microbanks in Argentina, Chile, Colombia, the Dominican Republic, Panama and Puerto Rico. April 27, 2013

(For more top stories, please refer to the subscriber edition)
MICROCAPITAL BRIEFS

Triodos Opens Pioneer, Equity Funds for Retail Investors
Triodos Bank of the Netherlands has launched two new investment funds, the Sustainable Pioneer Fund and the Sustainable Equity Fund. The Sustainable Pioneer Fund is an equity fund that focuses on small and medium-sized firms that address sustainable energy, medical technology, clean water and other environmental technologies. The Sustainable Equity Fund invests in larger-scale firms that meet undisclosed social and environmental performance criteria. Both funds require a minimum investment equivalent to USD 1,300. Triodos has total assets of USD 7 billion. May 9, 2013

EFSE to Loan $6m to Inecobank of Armenia, Banja Luka of BiH
The European Fund for Southeast Europe, a Luxembourg-based microfinance investment vehicle, recently notified MicroCapital that it loaned the euro-equivalent of USD 5.2 million to Mikrofin Banja Luka of Bosnia and Herzegovina and the local-currency equivalent of USD 912,000 to Inecobank of Armenia. Inecobank, which primarily serves rural micro-, small and medium-sized enterprises, reports total assets of USD 220 million, a gross loan portfolio of USD 167 million, deposits of USD 64 million, return on assets (ROA) of 4.2 percent and return on equity (ROE) of 23 percent as of 2012. Mikrofin Banja Luka, a lender to microentrepreneurs, reports total assets of USD 127 million. May 9, 2013

India's Citrus Pay Raises $2m in Equity from Sequoia
Mumbai’s Citrus Pay, a facilitator of electronic payments for consumers and merchants, has sold a minority stake to Sequoia Capital, a US-based venture capital firm, for USD 2 million. Approximately 500 merchants use Citrus Pay’s online payments and email invoicing services. April 30, 2013

Royal Bank of Scotland Sells 4.6% Stake in SKS, Merrill Lynch Buys in for $12m
Merrill Lynch Capital Markets España, a subsidiary of US-based Bank of America, reportedly has purchased the 4.6-percent stake in India’s SKS Microfinance Limited that the Royal Bank of Scotland Group recently sold via the open market for INR 630 million (USD 11.7 million). The Royal Bank of Scotland bought the stake from Deutsche Securities Mauritius, a subsidiary of Deutsche Asia Pacific Holdings, in September 2012 for INR 587 million, which was equivalent to USD 10.3 million at the time. The Royal Bank of Scotland which has operations in Asia, Europe and North America, reports total assets of USD 1.6 trillion, and Bank of America reports total assets of USD 2.2 trillion. As of September 2012, SKS reported total assets of USD 354 million and 3.9 million borrowers. As of March 2012, the microlender reported return on assets of -46 percent and return on equity of -111 percent. April 29, 2013
FIELD NOTES

“I Have seen the Future…and It Works:”
Sharing Platforms to Reduce Microfinance Delivery Costs

Last week, I had the privilege of speaking to Niclaus Bergmann, the managing director of Germany’s Sparkassenstiftung für Internationale Kooperation (Savings Banks Foundation for International Cooperation). I called Niclaus to discuss Sparkassen’s successful efforts in developing financial products for youth. We ended up talking about much more, including a much-needed history lesson for me on the German banking system. I was impressed, to say the least.

Sparkassen is a German network of 423 savings banks with a total of 15,000 branches, 250,000 staff members and revenues exceeding the equivalent of USD 1.4 trillion countrywide. Each of the banks is owned by a municipality - though all are run by professional managers - and each is restricted from operating outside its municipality. Considering the deregulation that has taken place in many developing markets with the aim of encouraging competition, I expect more than a few eyes will roll hearing that Germany has permitted this type of regional monopoly to continue. A brief search online revealed that German regulators were close to ending the regionalization of savings banks after the last financial crisis, but Sparkassen promised to increase efficiencies and was able to avoid the threat. Can many smaller banks be more competitive than one larger bank? There is reason to suspect so. Niclaus points out that the aggregated cost/income ratio of Sparkassen is among the lowest in the country: 62.2 percent compared with 85 to 88 percent at their big-bank competitors.

So how do they keep costs low and income high? The first piece is scale. Reaching scale both in savings and lending brings revenue, and Sparkassen’s client base of 50 million (in a country of 81 million people) is impressive. Germany’s relative wealth is a clear factor, but sheer volume plays a role as well. It is also important to note that revenues from Sparkassen’s brick and mortar banking are more stable and - in years of turmoil in financial markets - may offer a stronger revenue base than many activities of large commercial banks such as investment banking.

But what of costs? Sparkassen has invested in various joint platforms for its entire network. Most notably, a joint information technology (IT) platform, which reduces costs immensely. This platform, of course, has implications for products. One common IT platform cannot adapt to differing product portfolios from 423 institutions. Products, as a result, have become quite standardized, which is fine since the banks don’t compete against each other. Perhaps it would be fine even if they did since developed-country banks compete more on service than they do on products. Other cost savings come from joint risk management functions, which are managed at the regional level while each bank retains control over its own risk taking. Staff training is also done through regional training centers.

Let’s imagine for a minute that the many small microfinance institutions (MFIs) in a country such as Mexico were to defray the high cost of training by sharing this cost. Or what if, in a region such as Central America, which is characterized by small institutions, joint IT platforms were shared by networks of MFIs? Would costs be cut? How likely is it that the MFIs could leave their competitive concerns aside to address costs? I suspect we will find out over time as viable non-bank alternatives such as telecoms start to encroach on MFIs’ territory, pushing them to adapt or leave their ambitions behind.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 18 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com, or you may follow her on Twitter at BarbaraatEA.
Vision Microfinance is an appeal to combat poverty in a meaningful and sustainable way. So far 329 m USD have been distributed in the form of 345 promissory notes to 154 microfinance institutions in 41 countries. Thanks to our investors the lives of over 1 m people in developing countries have been transformed.

Vision Microfinance allows private and institutional investors to participate in the fast growing microfinance industry. Investors benefit from the extensive asset management expertise of Absolute Portfolio Management who work in close partnership with microfinance specialist Symbiotics and the Bank in the diocese of Essen, a cooperative bank specialized in sustainable investments. This unique cooperation of fund manager, research team and ethical guide yields innovative microfinance solutions: Vision Microfinance.

www.visionmicrofinance.com
This paper examines the “determinants of demand” for microinsurance products in the developing world and looks at why, despite its potential to mitigate risk, the demand for microinsurance is low. The authors also offer strategies for practitioners to increase demand for microinsurance products. After reviewing 30 qualitative and quantitative studies, the authors identify the following as primary determinants of microinsurance demand: client understanding of microinsurance, value proposition (and its perception), liquidity constraints, trust and the usage of other risk coping mechanisms. Strategies to address these determinants are assessed based on cost and the promotion of first sales and renewals. The authors found that people with limited understanding of microinsurance were less likely to renew an agreement. Although consumer education was found to increase knowledge, it did not correlate directly to increased demand. For example, the use of a radio campaign was found to be both cost effective and useful in increasing awareness. However, a noticeable increase in demand did not follow. More intensive consumer education programs, like training sessions and village meetings, were found to be more effective at stimulating initial enrolment than were brochures or basic information sessions. However, comprehensive training programs are expensive. As such, the authors argued that intensive programs should perhaps be implemented through government, donors or industry associations. Other factors seem to vary by product type. Proximity was found to be a factor for weather-index insurance: the further away from a weather station, the lower the demand for index insurance. Demand for health microinsurance was linked directly to quality of health services; poor service in health centres was cited as a major reason for clients not renewing policies. Products that are perceived to be of greater value to the client were found to offer greater returns to the provider. Seeking to improve the value proposition for clients, the Sajida Foundation of Bangladesh used the PACE tool, which assesses: benefits, coverage and… (Continued in the subscriber edition)