GEST-D-602

Banking and Microfinance,
Banking and Microfinance Exercises

1st semester EMP 2012-13

Prof. Laurent WEILL, Prof. Annabel VANROOSE
Arnaud GILLIN

Planning

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Lecturer</th>
<th>Guest speaker</th>
<th>Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/11/2012</td>
<td>6 pm – 9 pm</td>
<td>A. Gillin</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>13/11/2012</td>
<td>6 pm – 9 pm</td>
<td>A. Gillin</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>17/11/2012</td>
<td>6 pm – 9 pm</td>
<td>A. Gillin</td>
<td>N. Renier</td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>23/11/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td>Prof. E. De Keuleneer</td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>28/11/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>29/11/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>30/11/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>18/12/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>19/12/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>20/12/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>21/12/2012</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
</tbody>
</table>
Part 1: Objectives of the course

- Obtain insights in differences and interrelationships between banks and MFIs
- Go deeper into the regional distribution of banks and MFIs and what this means for access to financial services
- Expansion strategies of MFIs and banks and link with access to financial services

Part 1: Topics covered

This first part of the course will provide an overview of the commercialization and increasing interrelationships between banks and MFIs and what this means for access to financial services. Latin American cases will be presented. Additionally, the expansion process of MFIs will be studied and the different expansion logics MFIs may follow. The case of Peru and India will be presented. The following specific topics will be covered:

Session 1 and 2
Banking and microfinance: institutions and interrelationships
- Access to financial services
  i. Clients
  ii. Banks and MFIs
  iii. Geographical spread
- Differences between banks and MFIs
  i. Regulation
  ii. Methodologies
  iii. Financial and social performance
- Relationships between banks and MFIs
  i. Cooperation and linkages: eg SHG program in India
  ii. Competition: eg. MFIs in Peru and Bolivia
- Correlation between traditional financial sector development and the microfinance sector from a macro point of view
- Latin American country cases on financial sector development and the role of microfinance institutions

Session 3
Microfinance expansion strategies and access to financial services
- Location and access to financial services
- Expansion strategies of MFIs and their logics
- Case: Peru
- Case: India
Part 1: Recommended Readings

Session 1 and 2

Session 3
Part 2: Laurent Weill

Part 2: Objectives of the course

- Explain the fundamentals of the lending activity
- Introduce the investment decision criteria
- Explain the role of the financing decision on the value of the firm
- Present the fundamentals of Islamic finance

Part 2: Topics covered

1) Information asymmetries
   - Presentation
     - Adverse selection and signalling
     - Moral hazard
   - Consequences
     - Credit rationing
     - The role of the long-term relationships in credit activity

2) How to solve information asymmetries
   - The role of collateral
     - What is collateral?
     - The 3 reasons for the use of collateral
   - The role of capital
   - The role of character

3) Investment decision rules
   - Net Present Value
     - The NPV decision rule
     - What does NPV depend on?
   - Alternative decision rules
     - The internal rate of return
     - Other investment criteria

4) Capital structure policies
   - Capital structure in a perfect market
     - Equity vs. debt financing
     - Modigliani-Miller
   - The benefits of debt
     - The tax shield
     - Information asymmetries and the pecking-order theory
   - The costs of debt
     - The costs of financial distress
     - The agency costs of leverage
- Empirical evidence concerning capital structure policies

5) Islamic Finance

- Principles
  - A finance without interest
  - Another paradigm
- Instruments
  - Mudaraba
  - Musharaka
  - Murabaha
  - Ijara
- Practice and Criticisms
  - Practice: figures and reality
  - Criticisms

Part 2: Recommended Readings

Part 3: Objectives of the course

- Development of MIV (from fund raising to incorporation of the fund)
- Management of MIVs (from origination to portfolio management)
- Investment criteria

Part 3: Topics covered

1) Fund Development (Case Study)
   - Market positioning: demand versus offer
   - Fund raising
   - Fund structure
   - Investment Policy
   - Risk Management (country diversification, concentration limits, currency risk, liquidity risk)
   - Governance
   - Reporting
   - Servicing (payment collection, custodian,…)
   - Financial modeling
   - Technical Assistance

2) Fund Management – Advisory
   - Sourcing/Origination : eligibility criteria
   - Screening : initial desk review
   - Term Sheet
   - Due Diligence (social and financial risk assessment / scoring)
   - Debt versus Equity
   - Decision making - Investment Committee
   - Legal documentation
   - Monitoring

3) Investment criteria
   - Country risk
   - Regulatory context, institutional development and microfinance market
   - Ownership, governance and human resources
   - Products and services
   - Operations and internal control
   - Social and Environmental Risk
   - MIS
   - Loan portfolio development and quality
   - Financial performance
   - Asset & liabilities management (ALM) – Liquidity, solvency, currency risk
   - Business Plan and Development Prospects
Part 3: Recommended Readings


All parts

Evaluation

Written exam