GEST-D-602
Banking and Microfinance,
Banking and Microfinance Exercises
1st semester EMP 2013-14

Prof. Laurent WEILL, Prof. Annabel VANROOSE
Arnaud GILLIN, Noémie RENIER

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>24/10/2013</td>
<td>6 pm – 9 pm</td>
<td>A. Gillin</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>25/10/2013</td>
<td>6 pm – 9 pm</td>
<td>N. Renier</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>26/10/2013</td>
<td>6 pm – 9 pm</td>
<td>N. Renier</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>26/11/2013</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>27/11/2013</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>29/11/2013</td>
<td>6 pm – 9 pm</td>
<td>Prof. A. Vanroose</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>04/12/2013</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>17/12/2013</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>18/12/2013</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>19/12/2013</td>
<td>6 pm – 9 pm</td>
<td>Prof. L. Weill</td>
<td></td>
<td>R.42.4.110</td>
</tr>
<tr>
<td>20/12/2013</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: Prof. A. Vanroose

Part 1: Objectives of the course

- Obtain insights in differences and interrelationships between banks and MFIs
- Understand competition in the microfinance sector
- Go deeper into the regional distribution of banks and MFIs
- Expansion strategies of MFIs and banks and link with access to financial services

Part 1: Topics covered

The following specific topics will be covered:

Session 1 and 2
Banking and microfinance: institutions, interrelationships and competition
- Access to financial services
- Relationships between banks and MFIs
  - Competition
  - Cooperation and linkages
  - Competition between MFIs
- Correlation between traditional financial sector development and the microfinance sector from a macro point of view
- Latin American country cases on financial sector development, the role of microfinance institutions and the effects of increasing competition

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

Session 1 and 2


Session 3

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: Noémie Renier and Arnaud Gillin (Exercices)

Part 3: Objectives of the course

- Microfinance Investment Funds (MIF) development and management
- Risk Management from the perspective of the Fund
- Investment Procedures
- Calculating Effective Interest Rates

Part 3: Topics covered

1) Introduction : MFI vs MIF
2) Fund Development (Case Study)
   - Market positioning: demand versus offer
   - Fund raising
   - Fund structure
   - Governance
   - Investment Policy
   - Risk Management
   - Servicing (payment collection, custodian,…)
   - Financial modeling
   - Technical Assistance

3) 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

4) 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

5) Calculating Effective Interest Rates
– Theory
– Transparency requirements
– MFTransparency
– Exercises

Part 3: Recommended Readings


• “Calculating Transparent Pricing Tool” – v2.2, www.mftransparency.org


General reading


All parts

Evaluation

Written exam