



GEST-S-6002

**Module “Finance for microfinance”**

**Course: Banking and Microfinance and Exercises**

1st semester EMP 2020-21

**Module manager: Prof. Annabel VANROOSE**

**Planning**

Date	Time	Lecturer	Guest speaker	Place
30/09/2020	6 pm – 9 pm	Prof. L. Weill		R.42.4.110
01/10/2020	6 pm – 9 pm	Prof. L. Weill		R.42.4.110
02/10/2020	6 pm – 9 pm	Prof. L. Weill		R.42.4.110
03/10/2020	9 am – 12 pm	Prof. L. Weill		R.42.4.110
12/10/2020	6 pm – 9 pm		P. Goodman	R.42.4.110
17/10/2020	9 am – 12 pm		N. Renier	R.42.5.503
14/11/2020	9 am – 12 pm		N. Renier	R.42.5.503
16/11/2020	6 pm – 9 pm	Prof. A. Vanroose		R.42.4.110
23/11/2020	6 pm – 9 pm	Prof. A. Vanroose		R.42.4.110
30/11/2020	6 pm – 9 pm	Prof. A. Vanroose		R.42.4.110

## Part 1: Prof. Annabel VANROOSE

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### Objectives of the session

- Obtain insights in differences and interrelationships between banks and MFIs
- Understand performance of MFIs in their macro-economic context
- 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

### Topics covered and recommended readings

#### 1) **Banking and microfinance: institutions, interrelationships and competition (Session 1 and 2)**

- Access to financial services
- Correlation between traditional financial sector development and the microfinance sector
- MFI performance and their macro-economic context
- Relationships between banks and MFIs
  - Competition
  - Cooperation and linkages
- Competition between MFIs

#### References:

- Ahlin, C., J. Lin and M. Miao (2011), “Where does Microfinance Flourish? Microfinance Institution Performance in Macroeconomic Context,” *Journal of Development Economics* 95(2): 105-120.
- Assefa, E., N. Hermes and A. Meesters (2012), “Competition and Microfinance,” Available at SSRN: <http://ssrn.com/abstract=2029568>.
- Claessens, S. (2009), Competition in the Financial Sector: Overview of Competition Policies, *IMF Working Paper*, 09/45, The International Monetary Fund, Washington D.C.
- Cull, R., A. Demirgüç-Kunt and J. Morduch (2009), “Microfinance Meets the Market,” *Journal of Economic Perspectives* 23(1): 167-192.
- Demirguc-Kunt, A., T. Beck and P. Honohan (2008), *Finance for All? Policies and Pitfalls in Expanding Access*, World Bank Policy Research Report, World Bank, Washington DC.
- Vanroose, A. and B. D’Espallier (2013), “Do Microfinance Institutions Accomplish their Mission? Evidence from the Relationship Between

Traditional Financial Sector Development and MFIs' Performance and Outreach," *Applied Economics* 45(15): 1965-1982.

## 2) Microfinance expansion strategies and access to financial services (Session 3)

- Location and access to financial services
- Expansion strategies of MFIs and their logics
- Cases: Peru, India

### References:

- Bebbington, A. (2004), "NGOs and Uneven Development: Geographies of Development Intervention," *Progress in Human Geography* 28(6): 725 – 745.
- Fouillet, C. (2009), *La Construction Spatiale de la Microfinance en Inde*, Doctoral Thesis, Université Libre de Bruxelles, Brussels.
- Fruttero, A. and V. Gauri (2005), "The Strategic Choices of NGOs: Location Decisions in Rural Bangladesh," *The Journal Of Development Studies* 41(5): 759-787.
- Vanroose, A. (2015), "Which Local Factors Drive the Regional Expansion of Microfinance Institutions? Evidence from Peru?" *Journal of International Development*, DOI: 10.1002/jid.3082

## Part 2: Prof. Laurent WEILL

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### Objectives of the course

- Explain the fundamentals of the lending activity
- Present the fundamentals of Islamic finance
- Explain how Islamic microfinance works

### Topics covered and recommended readings

#### 1) Introduction: why we need financial institutions

#### 2) Information asymmetries

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

#### 3) How to solve information asymmetries

- The role of collateral
  - What is collateral?
  - The three reasons for the use of collateral
- The role of capital
- The role of character

#### 4) Islamic Finance

- Principles
  - A finance without interest
  - Another paradigm
- Instruments
  - Financing instruments
  - Deposit instruments
- Practice and Criticisms
  - Practice : figures and reality
  - Criticisms

## 5) The economic impact of Islamic finance

- Potential benefits
  - The effect on financial inclusion
  - The effect on financial development
- Potential costs

## 6) Islamic Microfinance

- Empirical Instruments
  - The mudaraba model
  - The murabaha model
- Illustrations

### References:

- Berk, J. and P. De Marzo (2019), *Corporate Finance*, 5<sup>th</sup> ed., Boston: Pearson.
- El-Gamal, M. (2008), *Islamic Finance: Law, Economics and Practice*, Cambridge: Cambridge University Press.
- Greenbaum, S., A. Thakor and A. Boot (2019), *Contemporary Financial Intermediation*, 3<sup>rd</sup> ed., Academic Press.
- Iqbal, Z., A. Mirakhor and M.S. Ebrahim (2008), “An Introduction to Islamic Finance,” *Review of Islamic economics* 12(1): 169-172.
- Ross, S., R. Westerfield and J. Jaffe (2013), *Corporate Finance*, 10<sup>th</sup> ed., Boston: Irwin/McGraw-Hill.

## **Part 3: Noémie RENIER and Patrick GOODMAN (Exercices)**

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### **Noémie Renier:**

#### **Objectives of the sessions**

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

#### **Topics covered and recommended readings**

##### **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

### References:

- Brealey, R.A., S.C. Myers and F. Allen (2014), *Principles of Corporate Finance*, 11<sup>th</sup> ed., New York: McGraw-Hill/Irwin.
- Watterfield, C. (2012), *Calculating Transparent Pricing Tool*, MicrofinanceTransparency, Washington D.C., [www.mftransparency.org](http://www.mftransparency.org).
- Dieckmann, R. (2007), “Microfinance: An emerging investment opportunity,” *Deutsche Bank Research*.
- Forster, S., E. Lahaye, H. Clark, A. Koning and K. McKee (2010), “Implementing the Client Protection Principles: A Technical Guide for Investors,” 2<sup>nd</sup> ed., CGAP/The World Bank, Washington, D.C., [http://smartcampaign.org/storage/documents/110125\\_SC\\_Tool\\_CGAP\\_Investor\\_CPP\\_Guide.pdf](http://smartcampaign.org/storage/documents/110125_SC_Tool_CGAP_Investor_CPP_Guide.pdf)
- Watterfield, C. (2013), *MicroFinance Transparency in a Snapshot*, MicrofinanceTransparency, Washington D.C., <http://www.mftransparency.org/wp-content/uploads/2013/08/MFT-ORG-104-EN-MFTransparency-in-a-Snapshot-2013-08.pdf>
- Peck Christen, R. and M. Flaming (2009), “Due Diligence Guidelines for the Review of Microcredit Loan Portfolios. A Tiered Approach,” CGAP/The World Bank, Washington, D.C., <http://www.cgap.org/sites/default/files/CGAP-Technical-Guide-Due-Diligence-Guidelines-for-the-Review-of-Microcredit-Loan-Portfolios-Dec-2009.pdf>

## **Patrick Goodman:**

### **Objectives of the session**

- Identify appropriate funding instruments for MFIs
- Status of the development of the MIV market

### **Topics covered and recommended readings**

#### **1) Funding instruments for MFIs**

- Characteristics and prerequisites for different instruments
- Donation
- Savings
- Loans (local, international, concessional, commercial)
- Guarantees
- Hard versus Local currency
- Bond issuing
- Securitisation
- Equity Raising
- Exercise on 3 different MFIs with different environment

#### **2) Microfinance Investment Vehicles**

- Definition of an MIV
- Structure of an MIV
- Evolution of MIVs
- MIV Survey
- Case study: Example of one MIV and its role in crisis times
- Trends
- Conclusion

#### References:

- Symbiotics (2020), “2020 Symbiotics Microfinance Investment Vehicles (MIV), Survey”, Symbiotics, Geneva.
- Sam Mendelson, (2020), “The Covid-19 Financial Inclusion Compass” European Microfinance Platform
- Symbiotics (2017), “Going unhedged in Frontier Markets”, Symbiotics, Geneva
- CGAP (2020), “Pulse Survey of Microfinance Institution – Covid-19”, CGAP, Washington, D.C.
- Symbiotics (2018), “White Paper: Banking for Impact”, Symbiotics, Geneva
- Coleman, A.K. (2007), “The Impact of Capital Structure on performance of microfinance institutions”, Journal of Risk Finance



- Innocent Bayai and Sylvanus Ikhide (2016), “Financing and financial sustainability of microfinance institutions (MFIs): a conceptual view”, Banks and Bank Systems
- Hallway, R., Hoque, M. & Chisty, M. (2011), “Commercialisation and Changes in Capital Structure in Microfinance Institutions: An Innovation or a Wrong Turn?”, Managerial Finance
- CGAP, (2010) “Microfinance Investment Vehicles Disclosure Guideline”, CGAP, Washington, D.C.
- Latortue, A., E. Littlefield, H. Siedek and K. McKee (2006), “Managing the Floodgates - Making the Most of International Flows of Microfinance Funding,” CGAP, Washington, D.C.
- CGAP (2007), “The true cost of deposit mobilization,” CGAP, Washington, D.C.
- IADB (2006), “How Should Microfinance Institutions Best Fund Themselves?” IADB, Washington, D.C.
- USAID (2005), “MFI Financing Strategies and the Transition to Private Capital,” USAID, Washington, D.C.
- WWB (2008), “Capital Markets Guide for Microfinance Institutions (MFIs),” New York.
- SEEP Network (2005), “Measuring the Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring,” Washington, D.C.

## **All parts**

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### **Evaluation**

Written exam