



GEST-S-604

Module “Case studies in microfinance”
Course: Case Studies in Financial Issues

2nd semester EMP 2016-2017

Prof. Mathias SCHMIT

Planning

Date	Time	Lecturer	Guest speaker	Place
13.02.2017	6 pm to 9 pm	Prof. M. Schmit		R42.4.110
14.02.2017	6 pm to 9 pm	Prof. M. Schmit		R42.4.110
20.02.2017	6 pm to 9 pm	Prof. M. Schmit		R42.4.110
21.02.2017	6 pm to 9 pm	Prof. M. Schmit		R42.4.110
07.03.2017	6 pm to 9 pm	Prof. M. Schmit		R42.4.110
15.03.2017	6 pm to 9 pm	Prof. M. Schmit		R42.4.110
25.03.2017	9 am to 12 pm + 1 pm to 4 pm	Prof. M. Schmit		R42.4.502

Objectives of the course

The course aims at:

- understanding and assessing risk management of MFIs.
- understanding the need for financial regulations and the lessons to be learned from the current crisis.
- being able to provide a sound financial statement analysis of a MFI.
- being able to define and write a business plan (final group work).

The topics taught in the previous courses will be used to support the debates. We expect this course to be highly interactive since it will mainly be based on case studies.

Topics covered and recommended readings

1) Understanding risks and their sources (sessions 1 and 2)

- Definition of risk
 - What are the different types of risks?
 - Relationship between the different types of risk
 - Cause-driven vs. event-driven approaches
- Measurement of risk
 - What are the regulatory measures of risk?
 - What do they really measure?
 - What is normal? What is extreme?
 - What is the role of correlations in risk management?
 - Importance of an integrated risk management framework
- What is risk management about?

References:

- EU Commission (2011), *European Code of Conduct for Microfinance Provision*, 56 pages,
http://ec.europa.eu/regional_policy/thefunds/doc/code_bonne_conduite_en.pdf
- COSO (2009), *Strengthening Enterprise Risk Management for Strategic Advantage*, 24 pages.
- Dowd, K., J. Cotter, C. Humphrey and M. Woods (2008), *How unlucky is 25-Sigma?* 8 pages. (Read only the story).
- Additional references provided in due time

2) “Symbanc” Managing liquidity risk in a MFI (sessions 3 and 4)

- Get familiar with Symbanc V.1 MFI simulator
- Understand the complex interrelation between all the decisions that a manager in MFI has to take
- Identify target market and design of loans according to your objectives
- Staff a MFI and allocate resources
- Liquidity risk
- Understand sustainable growth and expansion of an MFI
- Optimize use of funds

The students will be split into different groups that will work independently on the Symbanc simulator. Each session will have its own objectives that need to be achieved. It will be asked randomly some groups to present their results to other participants, followed afterwards by discussion/debates animated by the audience and the professor.

Symbanc Simulator

You will find the latest version of SymBanc, together with the user's manual, at the following URL: <http://www.hks.harvard.edu/m-rcbg/fsp/symbanc.html>

References:

- User guide to use Symbanc:
<http://content.knowledgeplex.org/streams/ksg/asia/UsersGuidetoMFISimulator.pdf>

3) Managing strategic risk and sustainable growth in MFIs (session 5)

- What does the MFI value consist of?
 - What are the impacts on profits and free cash-flows when doing business?
 - What are the differences between profit and value creation?
 - Why does generating profits not imply getting cash-inflows?
 - Understand the way profits are recorded vs. how cash (liquidity) accounts are impacted
 - Impact in terms of risk management and business conduct
 - Liquidity vs. solvency vs. company's value
 - Is high profit unethical for a MFI?

The session will be based on Compartamos, Al Amana, SKS and other cases.

IMPORTANT: Case study to be prepared before the session

References:

- Schmit, M. (2013), *Compartamos case study*, 23 pages.
- Higgins, R. (2009), *Analysis for Financial Management*, 9th edition, chapter 4 – Managing Growth, McGraw-Hill.
- Malchair, F. and M. Schmit (2013), *Ethics in Banking*, 39 pages.
- Vermaelen, T. (2011), *CEOs should refresh their finance skills*, QFINANCE, 4 pages.

4) Managing risk in a MFI and regulatory requirements (session 6)

- The session will provide a critical perspective on the relevance of current regulatory developments and offer potential leads to develop effective risk oversight, taking into account the operational reality of MFIs. Based on various examples, the following items will be discussed:
- What are the key challenges of Basel II/III regarding the bank's performance?
 - What is (and is not) the role of regulatory capital?
 - What are the uses and pitfalls of Basel Accords?
 - What are the key issues induced by Basel III?
 - Back to value thinking
 - What are the impacts of regulatory capital on business conducts for MFIs?

References:

- Schmit, M. (2013), *New Requirements and Changes of Basel III: Towards a New Business Model for Financial Institutions?* 20 pages.
- Bank for International Settlement (2010), *Microfinance activities and the Core Principles for Effective Banking Supervision*, 62 pages, <http://www.bis.org/publ/bcbs167.pdf>
- Bank for International Settlement (2016), *Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion*, 48 pages, <http://www.bis.org/bcbs/publ/d383.htm>
- Schmit, M. and H. Marrez (2009), "Credit Risk in microcredit: How does gender matter," *Savings & Development* XXXIV (3): 369-388, <http://aisberg.unibg.it/bitstream/10446/27471/1/SCHMIT-MARREZ.pdf>

5) Operational risk and risk governance: Building up a risk management framework (session 7 and 8)

- After discussing operational risk, we will focus on the impact of governance and reporting structure on the efficiency of risk management in MFIs. An effective enterprise risk management includes:
 - Strategy and risk appetite

- Risk policies & use test
- Modelling & data collection processes
- Stress test
- Organisational challenges & functional components of ERM framework
- Compliance and governance
- Roles and responsibilities regarding risk management of:
 - The Board, Executive committee
 - Internal controls
 - Risk management
 - Business development
 - Sales people
 - HR
- Lessons learnt from the current crisis: case studies

References:

- European Commission (2010), “Corporate Governance in Financial Institutions: Lessons to be drawn from the current financial crisis, best practices,” *accompanying document to the Green Paper Corporate Governance in Financial Institutions*, 44 pages.
- Schmit, M. (2013), *Definition and objectives of risk governance*, 20 pages.
- Additional references provided in due time.

Material, readings and preparation

Material will be provided electronically. Cases are sometimes required to be prepared before the sessions.

Evaluation/Grading

The exam will consist of a presentation of a case study in group (4 to 6 participants). You have to design a mission statement of a MFI you would like to conduct. This mission statement has to be sent for approval by 24th of February at the latest. Once, it has been approved you should prepare a business plan to reach your objectives. During the presentation of 20 minutes, you should discuss the following aspects:

- business description
- industry background
- operations plan and management summary
- financial plan and the funding of your MFI
- the sustainability of your MFI in the long run; and
- other issues you judge important and would like to raise

You should prepare a ppt presentation (maximum 15 slides) to be provided to Claire Verhaegen at the latest on 25th April by noon (hard copy and electronic version) before the presentation on 26th and 27th April 2017. After the deadline, in any case, no paper acceptance will be allowed for the first session. You may (not an obligation) provide a memo (word document) of maximum 15 pages to support your financial analysis. Some questions on the course may be asked individually to participants during the presentation.

The grade will be based on:

- Participation (and thus your active presence), group works, individual tests and quality of presentations (including your MFI analysis); and
- Final group assignment (case study).

The exam will take place **on 26th and 27th April 2017.**