



GEST-S-604

**Module “Topics in financial management for
microfinance institutions”**

Course: Financial planning and risk management

2nd semester EMP 2019-2020

Module manager: Prof. Mathias SCHMIT

Planning

Date	Time	Lecturer	Place
04.02.2020	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
11.02.2020	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
03.03.2020	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
07.03.2020	9 am to 12 pm + 1 pm to 4 pm	Prof. M. Schmit	R42.4.110
11.03.2020	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
17.03.2020	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
24.03.2020	6 pm to 9 pm	Prof. M. Schmit	R42.4.110

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 MFIs risks and performance (session 1)

- Understanding the differences between banks and MFIs
- Risk and performance of a MFI
 - Understanding a MFIs financial performance
 - Understanding of the different types of risks faced by a MFI

References:

- References provided in due time

The session will be based on the banking detective case.

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

- 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 link:

https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/programs/financial-sector-program/MFI_Simulator.exe

References:

- User guide to use Symbanc:
<https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/programs/financial-sector-program/UsersGuidetoMFISimulator.pdf>

3) Managing credit and market risk in a MFI and regulatory requirements (sessions 4 and 5)

The session will provide a critical perspective on the relevance of current regulatory developments and offer potential leads to develop effective credit and market risk oversight, taking into account the operational reality of MFIs.

- Understanding credit and market risk
 - What are the regulatory measures of credit and market risks?
 - 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 are the key regulatory challenges of Basel II/III regarding the MFIs 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>
- 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).

4) Managing strategic risk and sustainable growth in MFIs (session 6)

- 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.

5) Operational risk, strategic risk and risk governance: Building up a risk management framework (sessions 7 and 8)

- After discussing operational and strategic risks, 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.
- 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
- 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 25th of February 2020 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 23rd of April 2020 by noon (hard copy and electronic version) before the presentation on 24th of April 2020. 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 10 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 24th of April 2020**.

The module « Topics in financial management for microfinance institutions” is composed of two courses:

- A) Introduction to financial management (Prof. M. Schmit) (1st semester)
- B) Financial planning and risk management (Prof. M. Schmit)

Two marks A (40%) and B (60%) must set the final mark C of the module.

- if A and B are greater than or equal to 8/20, then $C = (40\% \cdot A) + (60\% \cdot B)$
- if $A < 8/20$ or $B < 8/20$, then $C = \min(A, B)$.