



GEST-S-604

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

**Course: Financial planning and risk management**

2<sup>nd</sup> semester EMP 2021-2022

**Module manager: Prof. Mathias SCHMIT**

**Planning**

<b>Date</b>	<b>Time</b>	<b>Lecturer</b>	<b>Place</b>
09.02.2022	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
17.02.2022	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
22.02.2022	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
26.02.2022	<b>9 am to 12 pm</b>	Prof. M. Schmit	R42.4.110
07.03.2022	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
08.03.2022	6 pm to 9 pm	Prof. M. Schmit	R42.4.110
19.03.2022	<b>9 am to 12 pm</b> (to be confirmed)	Prof. M. Schmit	R42.4.110
28.03.2022	6 pm to 9 pm	Prof. M. Schmit	R42.4.110

## **Objectives of the course**

The course aims to help students:

LO 1.2

- understand and assess the risk management of MFIs.

LO 1.3

- understand the need for financial regulations and the lessons to be learned from the current crisis.

LO 1.4

- provide a sound financial statement analysis of an MFI.

LO 4.1

- 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 (to be completed)**

*Note that the session order can be modified according to class discussions)*

#### **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) Managing credit and market risk in a MFI and regulatory requirements (sessions 2 and 3)**

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).

**3) “Symbanc” Managing liquidity risk in a MFI and financial planning (sessions 4 and 5)**

- 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](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>

## **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*, 9<sup>th</sup> 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](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 5 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 27<sup>th</sup> of February 2022 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 5<sup>th</sup> of May 2022 by noon (hard copy and electronic version) before the presentation sessions. 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 presentations will take place on May, 6 and 7.

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

- A) Introduction to financial management (Prof. M. Schmit) (1<sup>st</sup> 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  $C = \min(A, B)$ .