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**GEST-S-6002**
**Module “Finance for microfinance”**
**Course: Banking and Microfinance and Exercises**

**1st semester EMP 2024-25**

**Module manager: Prof. Annabel VANROOSE**

 ***Planning***

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| --- | --- | --- | --- | --- |
| Date | Time | Lecturer  | Guest speaker | Place |
| 16/10/2024 | 6 pm – 9 pm |  | N. Renier | A.0.05.2 |
| 05/11/2024 | 6 pm – 9 pm | Prof. A. Vanroose |  | A.0.05.2 |
| 18/11/2024 | 6 pm – 9 pm | Prof. A. Vanroose |  | A.0.05.2 |
| 21/11/2024 | 6 pm – 9 pm | Prof. L. Weill |  | A.0.05.2 |
| 22/11/2024 | 6 pm – 9 pm | Prof. L. Weill |  | A.0.05.2 |
| 23/11/2024 | 9 am – 12 pm | Prof. L. Weill |  | A.0.05.2 |
| 23/11/2024 | 2 pm – 4 pm | Prof. L. Weill |  | A.0.05.2 |
| 25/11/2024 | 6 pm – 9 pm |  | P. Goodman & N. Octave | A.0.05.2 |
| 09/12/2024 | 6 pm – 9 pm | Prof. A. Vanroose |  | A.0.05.2 |

**Part 1: Prof. Annabel VANROOSE**

***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
* Obtain knowledge on the regional distribution of banks and MFIs and the link with access to financial services
* Identify expansion strategies of MFIs and banks

***Topics covered and recommended readings***

1. **Banking and microfinance: institutions, interrelationships and competition (Sessions 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.
* Nisa C., Dony Abdul Chalid, V., 2022, Impact of competition on microfinance institutions: bibliometric analysis and systematic literature review, *Heliyon*, Volume 8, Issue 10.
* Assefa, E., N. Hermes and A. Meesters, 2013, Competition and the performance of microfinance institutions, *Applied Financial Economics*, 23 (9), pp. 767-782.
* [Caballero-Montes](https://onlinelibrary.wiley.com/authored-by/Caballero%E2%80%90Montes/Tristan), T., [Godfroid](https://onlinelibrary.wiley.com/authored-by/Godfroid/C%C3%A9cile), C., [Labie,](https://onlinelibrary.wiley.com/authored-by/Labie/Marc) M., 2021, Are interest rate caps a relevant tool to cool down overheating microfinance markets?, *Briefings in Entrepreneurial Finance*, vol.30 (4), pp. 319-330.
* 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., Demirgüç-Kunt, A. and Morduch. J. ,2009, “Microfinance Meets the Market*,” Journal of Economic Perspectives* 23(1): 167-192.
* 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.
1. **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:

* 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
* 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.
* Bebbington, A., 2004, “NGOs and Uneven Development: Geographies of Development Intervention,” *Progress in Human Geography* 28(6): 725 – 745.

**Part 2: Prof. Laurent WEILL**

 ***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
1. **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
1. **Islamic Finance**
* Principles
	+ - A finance without interest
		- Another paradigm
* Instruments
	+ - Financing instruments
		- Deposit instruments
* Practice and Criticisms
	+ - Practice : figures and reality
		- Criticisms
1. **The economic impact of Islamic finance**
* Potential benefits
	+ - The effect on financial inclusion
		- The effect on financial development
* Potential costs
1. **Islamic Microfinance**
* Empirical Instruments
	+ - The mudaraba model
		- The murabaha model
* Illustrations

References:

* Berk, J. and P. De Marzo (2019), *Corporate Finance*, 5th 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*, 3rd 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*, 10th ed., Boston: Irwin/McGraw-Hill.

**Part 3: Noémie RENIER, Patrick GOODMAN and Nawel OCTAVE**

**Noémie Renier:**

***Objectives of the sessions***

* Understand the role of Microfinance Investment Vehicles (MIVs) in the financial inclusion market
* Get operational and strategic insights on the functioning of MIVs (fund development, fund management and risk management)
* Understand the investment process of MIVs and integration of ESG/impact mission within the investment process
* Walk through key sector initiatives witnessing how strong cooperation between socially oriented funds have contributed to greater impact

***Topics covered and recommended readings***

1. **Financial Inclusion Market Trends**
* Microfinance within the Impact Industry
* The Role of Microfinance Investment Vehicles
1. **Fund Development and Management**
* AIFM and regulatory considerations
* Fund raising
* Investment process
* Risk Management
* Technical Assistance
1. **Investment Process**
* From origination to monitoring
* Due Diligence
* Double bottom line assessment
1. **Key sector initiatives**
* Social Performance TaskForce – Social Investor Working Group
* Coordination between MIVs (MoU)

References:

* Memorandum of Understanding on "Coordination among MIVs in response to Covid 19", <https://www.covid-finclusion.org/investors>
* SPTF Social Investor Working Group (SIWG) website, <https://sptf.info/working-groups/investors>
* MFR (2021), Institutional rating methodology, MFR website
* Symbiotics (2020), “2020 Symbiotics Microfinance Investment Vehicles (MIV), Survey”, Symbiotics, Geneva.
* Sam Mendelson (2020), “The Covid-19 Financial Inclusion Compass” European Microfinance Platform
* Convergences (2019), Microfinance Barometer 2019
* World Bank (2017), The Global Findex Database 2017 (World Bank, 2011-2017)
* CGAP (2020), “Toward a Shared Learning Agenda for Financial Inclusion,”
* GIIN (2020), Understanding Impact Performance: Financial Inclusion Investments

**Patrick Goodman and Nawel Octave:**

***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
* 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**

***Evaluation***

Written exam