Class Description and Syllabus

Building and Financing Microfinance
Institutions and Their Financial Products

Professor James B. Carlson
NYU Stern School of Business, Spring 2012

Course Number: FINC-UB.0042.01 (C15.0042.01)
Class Days: Mondays and Wednesdays
Time: 11:00 a.m. – 12:15 p.m., Room: T-UC21

Overview:

Microfinance has been hailed as one of the most effective tools for combating poverty through loans and other financial access offered to the global poor. Such access to finance represents a fundamental shift from a governmental “top-down” to a private “bottom-up” approach to global poverty. This reflects a model of social entrepreneurship, bringing creative business and financial strategies to complex social and economic problems. And microfinance has been widely viewed as empowering women and other disadvantaged classes in some societies.

Microfinance is confronting many fundamental challenges now. Their financial products are expanding from traditional group loans to tailored individual loans, savings, remittances and insurance products. Branchless and mobile telephone banking initiatives may either extend the reach or disintermediate microfinance institutions. As governmental and donor funding withdraws in an era of financial crises, microfinance has turned to capital market solutions in the debt, structured products, derivatives, private equity and public capital markets that are as creative and demanding as those that confront any global firm. To more broadly offer access to financial products to the global poor and to pursue those capital market solutions, microfinance institutions confront explicit requirements and implicit assumptions that they will commercialize and transform from mission-driven not-for-profit enterprises into for-profit, regulated corporations and banks. Does the microfinance mission fundamentally conflict with these developments and pressures, or is a “double” or “triple” bottom line feasible for microfinance?
Requirements:

Reading materials and case assignments will be posted on Blackboard. Student attendance, the quality of preparation, and class discussion are essential for the course. Students are responsible for completing the assigned readings and the case assignments before class. I am coordinating these materials with a series of guest speakers and am soliciting their contributions. The assigned material will, in some cases, be slightly voluminous, which reflects the wealth of materials available and my objective of thoroughly introducing you to this subject, but which will also result to a degree in your skimming some of the materials. Once we are finished with each week, and benefit from any additional materials and inclusions from guest speakers, I will periodically update the final syllabus and our complete set of materials.

Class Style and Grading:

Case and practical product and structural approach with materials, inquiries or responses prepared by individuals or groups of students every three or four weeks. These will be 1-2 questions, providing for one-page single spaced responses. I also expect that some of the classes will be structured so as to provide for group presentations/discussions on certain issues. Grading will be based on class participation (⅓), and these questions/group presentations (⅔).

Contact Information:

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jcarlson@stern.nyu.edu  
jbcarlson1424@gmail.com
Course Outline:

I. INTRODUCTION TO MICROFINANCE
   


II. MFI PRODUCTS

   A. Micro Group Lending

      1. Laura Brandt et al., The Russia Microfinance Project (2006), *Lending Methodology Module*.


      3. The Economics of Microfinance. Ch. Four—Group Lending; Ch. Five—Beyond Group Lending.


   B. Micro Individual Loans


C. **Micro Savings**


D. **Microinsurance**


4. Ingo Walter, Insead (2009), *Insuring the Poor: Bajaj Allianz Microinsurance Initiatives in India, European Institute for Business Administration*. 


E. Micro Remittances


F. Small and Medium Enterprises; Other Access to Finance Financing Models


III. Measuring and Considering the Impact of Microfinance


IV. TECHNOLOGY TO LEVERAGE, EXTEND OR DISINTERMEDIATE MFIs

A. Branchless Banking


4. CGAP, Focus Note: Regulating Banking Agents (2011).

5. CGAP, Focus Note: Nonbank E-Money Issuers: Regulatory Approaches to Protecting Customer Funds (2010).


B. Mobile Banking

1. CGAP, Focus Note: Microfinance and Mobile Banking: The Story So Far (2010).

2. Olga Morawczynski, Saving Through the Mobile Phone—The Case of M-PESA, Microbanking Bulletin (2009).


8. CGAP, Focus Note: Regulating Transformational Branchless Banking: Mobile Phones and Other Technology to Increase Access to Finance (2008).

C. KIVA and Microplace


V. COMMERCIALIZATION, TRANSFORMATION AND FOR-PROFIT ORGANIZATIONAL CHANGE FOR MFIs

A. Commercialization and Financial Regulation

1. The Economics Of Microfinance, Ch. Eight—Commercialization and Regulation.


3. The Commercialization of Microfinance, Ch. 2—Transformation, Journey from NGO to Regulated MFI.


B. Corporate Governance Consequences of Transformation


VI. MFIs AS AN INVESTMENT/ASSET CLASS OF ASSETS; MICROFINANCE INVESTMENT VEHICLES

A. MFI Investments as an Asset Class


B. Microfinance Investment Vehicles

1. CGAP Brief, Microfinance Investment Vehicles (2007).


VII. CAPITAL MARKET FUNDING OF MFIs

A. Capital Markets Generally in Funding MFIs


B. Senior Debt Capital

1. Deutsche Bank, Form of Loan/Investment Approval for MFI Funding (2010).


C. Foreign Exchange Rate Risk in Connection with MFI Debt Finance


D. Securitizations, CLOs and CDOs Based on MFI Loans


E. Private Equity/Venture Capital Investments in MFIs


F. Initial Public Offerings for IPOs


G. **Controversies About MFI IPOs**


5. Reserve Bank of India, *Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector* (2011)

Index of General Resources for Microfinance

There is a wealth of organizations and websites that provide significant insights, articles and resources with regard to microfinance, many of which we will refer to in class from time to time, and all of which can be helpful to you in learning more about microfinance and preparing papers and presentations later in the semester.

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<thead>
<tr>
<th>Organization</th>
<th>Website</th>
<th>Brief Description</th>
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<tr>
<td>Accion International</td>
<td><a href="http://www.accion.org">www.accion.org</a></td>
<td>ACCION International is a private, nonprofit organization currently partnered with 28 microfinance institutions (MFIs), NGOs and commercial banks.</td>
</tr>
<tr>
<td>BRAC</td>
<td><a href="http://www.brac.net">www.brac.net</a></td>
<td>(Bangladesh Rural Advancement Committee)—the world's largest NGO. BRAC operates social enterprises that are strategically connected to development programs &amp; form crucial value chain linkages which increase the productivity of members’ assets and labor, and reduce risks of their enterprises.</td>
</tr>
<tr>
<td>Finca</td>
<td><a href="http://www.finca.org">www.finca.org</a></td>
<td>A global MFI network collectively serving more low-income entrepreneurs than any other MFI while operating on commercial principles of performance and sustainability.</td>
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<tr>
<td>Grameen Bank</td>
<td><a href="http://www.grameen-info.org">www.grameen-info.org</a></td>
<td>MFI &amp; community development bank founded in 1976 by Muhammad Yunus—uses the group lending model to make small loans without requiring collateral.</td>
</tr>
<tr>
<td>Kiva</td>
<td><a href="http://www.kiva.org">www.kiva.org</a></td>
<td>Kiva Microfunds, a non-profit that allows people to lend money via the internet to MFIs around the world and in the U.S., which in turn lend the money to small businesses &amp; students.</td>
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<tr>
<td>Opportunity International</td>
<td><a href="http://www.opportunity.org">www.opportunity.org</a></td>
<td>Faith-based MFI, providing small business loans, savings, insurance and training.</td>
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### TrickleUp

**Website**: www.trickleup.org

Program of microenterprise development that includes training, conditional seed capital grants, and savings.

### MFI's Targeting Women

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<tr>
<td>Freedom From Hunger</td>
<td><a href="http://www.freedomfromhunger.org">www.freedomfromhunger.org</a></td>
<td>MFI offering group lending, savings, education &amp; healthcare programs.</td>
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<tr>
<td>Women’s World Banking</td>
<td><a href="http://www.swwb.org">www.swwb.org</a></td>
<td>A network of 40 leading MFIs from 28 countries committed to women as clients, innovators and leaders.</td>
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### Hybrid Development Institutions

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<tr>
<td>Millennium Villages</td>
<td><a href="http://www.millenniumvillages.org">www.millenniumvillages.org</a></td>
<td>Millennium Villages: An initiative of The Earth Institute at Columbia University, Millennium Promise, &amp; the UNDP. Community-led development for impoverished rural communities in Africa.</td>
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<tr>
<td>Millennium Promise</td>
<td><a href="http://www.millenniumpromise.org">www.millenniumpromise.org</a></td>
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### Research & Activist Organizations:

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<tr>
<td>Boulder Institute of Microfinance</td>
<td><a href="http://www.bouldermicrofinance.org">www.bouldermicrofinance.org</a></td>
<td>Nonprofit organization founded in 2004, to create a platform for dialogue and critical thinking in microfinance.</td>
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<tr>
<td>CGAP &amp; CGAP Microfinance Gateway</td>
<td><a href="http://www.cgap.org">www.cgap.org</a> <a href="http://www.microfinancegateway.org">www.microfinancegateway.org</a></td>
<td>CGAP is an independent policy and research center housed at the World Bank Microfinance Gateway contains CGAP’s research &amp; articles.</td>
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<tr>
<td>Financial Access Initiative</td>
<td><a href="http://www.financialaccess.org">www.financialaccess.org</a></td>
<td>FAI is a consortium of leading development economists.</td>
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<tr>
<td>Microcapital Institute</td>
<td><a href="http://www.microcapital.org">www.microcapital.org</a></td>
<td>Microcapital provides monthly market reports on microfinance capital markets.</td>
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<tr>
<td>Microcredit Summit Campaign</td>
<td><a href="http://www.microcreditsummit.org">www.microcreditsummit.org</a></td>
<td>Campaign brings together MFIs, advocates, educational institutions, donor agencies, IFIs, NGOs &amp; others to promote best practices in the field.</td>
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<tr>
<td>Microfinance Information Exchange</td>
<td><a href="http://www.themix.org">www.themix.org</a></td>
<td>The Mix provides data services, analysis, research &amp; business information on the institutions that provide financial services.</td>
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<tr>
<td>microLinks</td>
<td><a href="http://www.microlinks.org">www.microlinks.org</a></td>
<td>A knowledge-sharing family of applications &amp; tools designed to improve the impact of USAID microenterprise programs and activities.</td>
</tr>
<tr>
<td><strong>Next Billion</strong></td>
<td><a href="http://www.nextbillion.net">www.nextbillion.net</a></td>
<td>Website and blog bringing together the community of business leaders, social entrepreneurs, NGOs, policy makers and academics who want to explore the connection between development and enterprise.</td>
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<td><strong>Ohio State Rural Finance Program</strong></td>
<td><a href="http://www.aede.osu.edu">www.aede.osu.edu</a></td>
<td>Applies economic &amp; business principles to the challenges of agriculture, the food system, the environment, and economic development.</td>
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<tr>
<td><strong>SEEP Network</strong></td>
<td><a href="http://www.seepnetwork.org">www.seepnetwork.org</a></td>
<td>Practitioner-driven research, learning, &amp; product development primarily through member-driven learning initiatives</td>
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<tr>
<td><strong>Socialfunds.com</strong></td>
<td><a href="http://www.socialfunds.com">www.socialfunds.com</a></td>
<td>Information on SRI mutual funds, community investments, corporate research, shareowner actions, &amp; daily social investment news.</td>
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<td>Acumen Fund</td>
<td><a href="http://www.acumenfund.org">www.acumenfund.org</a></td>
<td>Uses philanthropic capital to make investments – loans or equity – that yield both financial &amp; social returns.</td>
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<tr>
<td>Blue Orchard</td>
<td><a href="http://www.blueorchard.com">www.blueorchard.com</a></td>
<td>Blue Orchard develops &amp; manages financial products &amp; services that invest in MFIs.</td>
</tr>
<tr>
<td>UN Capital Development Fund</td>
<td><a href="http://www.uncdf.org">www.uncdf.org</a></td>
<td>The UNCDF offers investment capital, capacity building &amp; technical advisory services to MFIs.</td>
</tr>
<tr>
<td>Developing World Markets</td>
<td><a href="http://www.dwmarkets.com">www.dwmarkets.com</a></td>
<td>Structures transactions that provide MFIS &amp; other socially motivated organizations with access to international capital markets.</td>
</tr>
<tr>
<td>Grameen Foundation</td>
<td><a href="http://www.grameenfoundation.org">www.grameenfoundation.org</a></td>
<td>The Grameen Foundation offers funding &amp; technical assistance.</td>
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<tr>
<td>Imp-Act Consortium</td>
<td>www2.ids.ac.uk/impact</td>
<td>Imp-Act provides technical assistance by supporting and promoting Social Performance Management (SPM).</td>
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<tr>
<td>Intellecash</td>
<td><a href="http://www.intellecash.com">www.intellecash.com</a></td>
<td>Intellecash provides business franchising services to MFIs.</td>
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<tr>
<td>International Association of Microfinance Investors</td>
<td><a href="http://www.iamfi.com">www.iamfi.com</a></td>
<td>A global membership organization with the goal to increase sustainable capital flows to microfinance, thereby expanding access to financial services among the world’s financially excluded.</td>
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<tr>
<td>MicroSave</td>
<td><a href="http://www.microsave.org">www.microsave.org</a></td>
<td>MicroSave offers technical assistance: development of toolkits and training.</td>
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<tr>
<td>PlaNet Finance</td>
<td><a href="http://www.planetfinancegroup.org/EN">www.planetfinancegroup.org/EN</a></td>
<td>Technical assistance: International NGO providing: advisory services &amp; training, a microfinance rating agency, investment company, and venture capital company with a social mission that invests directly in microentrepreneurial projects.</td>
</tr>
<tr>
<td>World Bank</td>
<td><a href="http://www.worldbank.org">www.worldbank.org</a></td>
<td>An international financial institution (IFI) that provides leveraged loans to developing countries for capital programs.</td>
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**MicroInsurance**

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<tr>
<td>Microensure</td>
<td><a href="http://www.microensure.com">www.microensure.com</a></td>
<td>An insurance intermediary providing a range of</td>
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<td></td>
<td><a href="http://www.microinsuranceagency.com">www.microinsuranceagency.com</a></td>
<td>services to MFIs.</td>
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<tr>
<td>Microinsurance</td>
<td><a href="http://www.microinsurancecentre.org">www.microinsurancecentre.org</a></td>
<td>Works with insurers and delivery channels to develop partnerships for product development, research and advocacy.</td>
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