Course Goals:

Microfinance currently serves an estimated 100 million borrowers; the total potential demand is estimated to reach one billion. As microfinance institutions (MFIs) seek to reach greater scale and outreach, they are looking to a growing pool of cross-border financing, as well as to local sources of capital, to fund their growing business operations. The total foreign MFI funding is expected to reach $25 billion by 2015.

The goal of this course is to introduce you to the legal and business issues that arise in the creation, operation and financing of MFIs and to the deal structuring, negotiating, and drafting skills necessary to advise MFIs seeking the capital necessary to reach scale. We will identify key challenges that MFIs face when seeking financing and the requirements of finance providers, including those seeking both financial and social returns. We will analyze various financing structures (and related legal documentation) used to finance MFIs, including loans, guaranties, off-balance sheet financing, private equity and public offerings, and the legal and business issues that these financing techniques raise for all microfinance participants.

Course Requirements:

This course is a highly interactive class that will include several requirements:

a) Readings and classroom participation;
b) Class presentations; and
c) Closed book, final examination.

Performance Evaluation:

Your grade in this course will be based on class participation (1/3), class presentations (1/3) and a final examination (1/3).
A. Class Attendance and Participation

Class meets Mondays and Wednesdays from 10:30 to 11:50. I expect each member of the class to attend class regularly and actively participate in our classroom discussions. You will be requested to volunteer to make presentations and to help co-lead in-class discussions during the semester.

B. Final Examination

The final examination will cover materials presented and discussed throughout the semester. It will be a closed book, in-class, exam. Material covered by guest speakers and student presentations may be included in final exam.

For All Students:

All materials will be available on the internet or distributed in class. Additions or changes to required readings will be posted on blackboard. Students are encouraged to supplement the assigned materials with the many sources available on the internet, including the sites of MFIs.

Some suggestions:

Guest Speakers:

Guest Speakers with experience in microfinance will be joining us from time to time. The syllabus will be adjusted to accommodate the speakers’ schedules.

Course Schedule

Week One – Introduction to Microfinance

Introduction. What is microfinance?

Introduce microfinance and the challenges MFIs face when trying to reach scale; identify variations among distribution methodologies, business models, products and legal forms characterizing providers of microfinance. We will also discuss the different participants in the industry and the roles they each play.
Case Studies

Volunteers will present MFIs from different regions of the world. Presentations will include the mission, legal form and business model of each MFI as well as present economic, social and commercial issues affecting each MFI.

Required Reading:

The New Yorker, Millions for Millions, October 30, 2006 by Connie Bruck
http://www.newyorker.com/archive/2006/10/30/061030fa_fact1

Microfinance: an Emerging Investment Opportunity, Deutsche Bank Research (December 19, 2007) (available online at www.dbresearch.com)

CGAP Focus Note 59 Does Microcredit Really Help the Poor? http://www.cgap.org/p/site/c/template.rc/1.9.41443/

Week Two – Investor Motivations

Who is investing in microfinance and why? What is the ideal source of funding for an MFI?

Discuss various forms of funding: donations/debt/equity and the different types of investors and their requirements. Analyze differences in investor motivations (such as between founder capital and growth capital).

Case Studies

Volunteers will present examples of funders in different MFIs. Presentations will include type of investor, performance and role in the MFI industry.

Required Reading:


How Should Microfinance Institutions Best Fund Themselves? (Chapters 1 and 2)
Week Three –

Due Diligence- Introduction to Due Diligence

What is the purpose of a due diligence process? What is the role of each participant in the process? We will discuss how to prepare to conduct due diligence and what to expect if you are an MFI preparing to undergo a due diligence review.

We will review a diligence request list as well as the criteria used by rating agencies and market leaders when evaluating MFIs, highlighting what is unique in the diligence process for MFIs.

Required Reading:

Microfinance Banana Skins 2009: Confronting Crisis and Change
2009, Lascelles, D. & Mendelson, S.
http://www.microfinancegateway.org/p/site/m/template.rc/1.9.35208

CGAP Brief: AML/CFT Regulations: Balancing Security with Access
http://www.cgap.org/p/site/c/template.rc/1.9.2733/


Week Four and Five– Debt Financing

Introduction to loan agreements.

Overview of Credit Documentation. Detailed review of key provisions of commitment papers and loan agreement. We will discuss the process of securing credit and the negotiation of critical terms (e.g., affirmative and negative covenants, events of default).

Students will play the role of Borrower, Lender and counsel to Borrower and Lender as we review key provisions of the commitment papers and the credit agreement. Emphasis will be placed on provisions critical to MFIs.

Required Reading:

Annotated Loan Agreement:
http://www.cgap.org/p/site/c/template.rc/1.9.2994/
Week Six – Credit Enhancements

*Introduction to credit enhancements.*

How can credit enhancements be used to mitigate risk of financing MFIs? Which credit enhancements are most effective for MFIs? Overview of credit enhancement mechanisms: Guaranties, Mezzanine Financing, Exchange Risk Protection, Transfer Risk Protection and Political Risk Insurance.

Required Reading:

CGAP Focus Note 31 Foreign Exchange Risk in Microfinance: What is it and how can it be managed: [http://www.cgap.org/p/site/c/template.rc/1.9.2522](http://www.cgap.org/p/site/c/template.rc/1.9.2522)


*Case Studies*

We will review credit enhancement techniques used in the most innovative MFI financings.

Week Seven – Off-Balance Sheet Financings

*Introduction to off-balance sheet financing.*

When is off-balance sheet financing appropriate for a microfinance institution? Evaluate Off-Balance Sheet Financings that have been used in microfinance. Detailed discussion of common structures, advantages and disadvantages of different credit enhancement techniques, legal issues, role of rating agencies, and lessons from the US mortgage crisis.

Required Reading:


Week Eight – Legal and Regulatory Risk

*Introduction to Regulation.*

Review how microfinance is regulated (and how this impacts the ability to raise financing for microfinance).

Volunteers will present the regulation of MFIs in previously assigned countries and lead discussion of impact of regulation on MFIs.
Required Reading:


**Week Nine – Transformation**

*What is transformation?*

Discussion of alternative structures for achieving transformation and implications on governance, operations, organization of networks, and capital raising.

Required Reading:


**Week Ten – Private Equity: Ownership and Governance Issues**

*Review role of private equity in microfinance.*

Analyze the governance issues that are unique to MFIs, including the role of founders, mission drift, crisis management, role of the board of directors, fiduciary duties. Discuss the role of public-private partnerships.

*Students will play the role of MFI shareholder, MFI management, Investor and counsel to MFI and Investor as we review key issues relating to governance and a model subscription agreement.*

Required Reading:

Lauer, Kate, CGAP Occasional Paper, Transforming MFIs: Critical Ownership Issues to Consider http://www.cgap.org/p/site/c/template.rc/1.9.4213

**Weeks Eleven and Twelve – Equity Financings**

*Introduction to Issues in Public Equity Investments.*

What are the challenges and opportunities for MFIs accessing the public capital markets and for retail equity investors in microfinance institutions?
Required reading:

*To come*

CGAP Note 65 Indian Microfinance Goes Public: The SKS Initial Public Offering
[http://www.cgap.org/p/site/c/template.rc/1.9.47613/](http://www.cgap.org/p/site/c/template.rc/1.9.47613/)

**Week Thirteen – Microfinance Funds**

*Introduction to Funds.*

Review of structure of funds and discussion of issues such as regulatory requirements, categories of investors, diversification of risk, impact of limited exit options. Review of a sample Offering Memorandum for a debt fund targeting socially responsible investors.

*Case Studies*

*Volunteers will present two funds (e.g., Calvert Community Investment Note and ResponsAbility Global Micro Finance Fund).*

**Week Fourteen –**

Review Session for final Exam.

**Conclusion: Cutting Edge Issues in Financing Microfinance Institutions**

Discussions of issues confronting microfinance today, including the impact of the financial crisis on individual MFI’s and the industry in general. How have funding strategies changed? What issues have arisen with the consolidation among MFI’s and convergence with other finance providers?

Required reading:

Microfinance Managers Consider Online Funding: Is It Finance, Marketing, or Something Else Entirely? Apr 2009, Burand,D.
[http://www.microfinancegateway.org/p/site/m//template.rc/1.9.34339](http://www.microfinancegateway.org/p/site/m//template.rc/1.9.34339)

The Global Financial Crisis and Its Impact on Microfinance
Feb 2009, Littlefield, E. & Kneiding, C.