

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 ($\frac{1}{3}$), and these questions/group presentations ($\frac{2}{3}$).

Contact Information:

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Course Outline:

I. INTRODUCTION TO MICROFINANCE

- A. Joanna Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective: Sustainable Banking With The Poor* (2001) [hereinafter *Microfinance Handbook*]. Intro. pp. 1-5.
- B. Beatriz Armendáriz & Jonathan Morduch, *The Economics Of Microfinance* (2d ed. 2010) [hereinafter *Economics Of Microfinance*]. Ch. One— Rethinking Banking, pp. 1-27, Ch. Two—Why Intervene in Credit Markets pp. 29-41, 48-66.
- C. Daryl Collins et al., *Portfolios of the Poor: How the World's Poor Live on \$2 a Day* (2009). Ch. One—The Portfolios of the Poor.
- D. McKinsey & Company, *Global Financial Inclusion* (2010), *From Millions To Billions: Achieving Full Financial Inclusion*.

II. MFI PRODUCTS

A. Micro Group Lending

- 1. Laura Brandt et al., *The Russia Microfinance Project* (2006), *Lending Methodology Module*.
- 2. *Microfinance Handbook*, Ch. Five—Designing Lending Products.
- 3. *The Economics of Microfinance*. Ch. Four—Group Lending; Ch. Five—Beyond Group Lending.
- 4. Dichter & Harper, *What's Wrong With Microfinance?* (2007). Ch. Four—What's Wrong With Groups?
- 5. BRAC Uganda Loan Pass Book (2009).
- 6. Chuck Waterfield, *Explanation of Compartamos Interest Rates V.2* (2008).
- 7. Adam Fish, *Why Are Microfinance Interest Rates so High*, *Ezine Articles* (2010).

B. Micro Individual Loans

- 1. Asif Dowla & Dipal Barva, *The Poor Always Pay Back: The Grameen II Story* (2006). Ch. Three—Loan Products Under Grameen II.

2. Dean Karlan & Jonathan Morduch, *Access to Finance: Ideas and Evidence—Credit Market Innovations*, The Financial Access Initiative (2009).
3. Elisabeth Rhyne, *Microfinance For Bankers And Investors: Understanding the Opportunities and Challenges of the Market at the Bottom of the Pyramid* (2008) [hereinafter, *Microfinance for Bankers and Investors*]. Ch. Eleven—Credit Bureaus and Credit Scoring.
4. Drake & Rhyne, The Commercialization of Microfinance [hereinafter, *The Commercialization of Microfinance*], *Ch. Thirteen—Credit Bureaus: A Necessity for Microfinance?* (2008).

C. Micro Savings

1. Alex Counts & Patrick Meriweather, The Grameen Foundation, *New Frontiers in Micro-Savings*, (2008).
2. Kendall, *A Penny Saved: How Do Savings Accounts Help the Poor* (2010)
3. *Microfinance Handbook*, Ch. 6—Designing Savings Products.
4. Marguerite S. Robinson, *The Microfinance Revolution: Sustainable Finance for the Poor*, Ch. 7—Savings and the New Microfinance.
5. *The Economics of Microfinance*, Ch. Six—Savings and Insurance.
6. Dupas and Robinson, *Savings Constraints and Microenterprise Developments – Evidence From a Field Experiment in Kenya* (2011).
7. CGAP Brief, *Is There a Business Case for Small Savers?* (2011).

D. Microinsurance

1. Financial Access Initiative, *How do the Poor Deal with Risk? Lessons from Portfolios of the Poor: How the World's Poor Live on \$2 a Day* (2009).
2. Financial Access Initiative, *Access To Finance: Ideas and Evidence Risk Management and Insurance*, (2009).
3. Richard Leftley & Shadreck Mapfumo, Opportunity International Network (2008), *Effective Microinsurance Programs to Reduce Vulnerability*.
4. Ingo Walter, Insead (2009), *Insuring the Poor: Bajaj Allianz Microinsurance Initiatives in India*, *European Institute for Business Administration*.

5. Theresa Chen, et al., Institute for Financial Management and Research (IFMR), *Implementing Health Insurance Through Micro-credit: A Case Study of SKS Microfinance, India* (2008).
6. International Research Institute for Climate and Society, *Index Insurance and Climate Risk: Prospects For Development and Disaster Management* (2010).
7. Opportunity International, *MicroEnsure's Weather Indexed Crop Insurance* (2010).

E. Micro Remittances

1. Michael R. Comstock et al., *Maximizing the Value of Remittances for Economic Development* (2009).

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

1. The Milken Institute & The German Marshall Fund, *Transatlantic Innovations in Affordable Capital for Small- and Medium-Sized Enterprises: Prospects for Market-Based Development Finance* (2007).
2. David Bornstein, The New York Times, *Filling the Gap Between Farm and Fair Trade* (2010).
3. Brian Milder, *Closing the Gap: Reaching the Missing Middle and Rural Poor through Value Chain Finance*, Enterprise Development and Microfinance (2008).
4. V. Katsuri Rangan & Katharine Lee, Harvard Business School, *Root Capital* (2009).
5. Patricia Devaney, Community Development Investment Review, *Global Agricultural Value Chains: Sustainable Growth as a Means of Sustainable Development* (2010).
6. *Root Capital Performance Report Q2* (2011).

III. Measuring and Considering the Impact of Microfinance

- A. Duvendack, et al., *What is the Evidence of the Impact of Microfinance on the Well-Being of Poor People?* (2011).
- B. Kathleen Odell, *Measuring the Impact of Microfinance: Taking Another Look*, Grameen Foundation (2010).
- C. CGAP Brief, *Measuring Changes in Client Lives Through Microfinance: Contributions of Different Approaches* (2011).

IV. TECHNOLOGY TO LEVERAGE, EXTEND OR DISINTERMEDIATE MFIs

A. Branchless Banking

1. McKinsey & Company, *Banking Where You Shop: Correspondent Banking's Contribution to Financial Inclusion* (2011).
2. CGAP, Focus Note: *Branchless Banking 2010: Who's Served? At What Price? What's Next?* (2010).
3. CGAP, Focus Note: *Emerging Lessons of Public Funders in Branchless Banking* (2011).
4. CGAP, Focus Note: *Regulating Banking Agents* (2011).
5. CGAP, Focus Note: *Nonbank E-Money Issuers: Regulatory Approaches to Protecting Customer Funds* (2010).
6. Bill & Melinda Gates Foundation, *Financial Services for the Poor: Strategy Overview* (2010).
7. Bill & Melinda Gates Foundation, *Showcasing Successes in Banking Beyond Branches* (2011).

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).
3. McKinsey & Company, Global Financial Inclusion, *Banking on Mobile to Deliver Financial Services to the Poor* (2010).
4. William Jackson and Tavneek Suri, *The Economics of M-PESA: An Update* (2010).
5. PlaNet Finance, *Beyond Payments: Next Generation Mobile Banking For the Masses* (2011).
6. Strategy Analytics, *Mobile Money is a Major Opportunity, But Not Without Partners* (2011).
7. Pyramid Research, *Excerpt: Mobile Financial Services in Africa—MNO Business Models and Market Forecast* (2010).

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

C. KIVA and Microplace

1. *How Kiva Works*, KIVA, <http://www.kiva.org/about/how>
2. Tillman Bruett, Community Development Investment Review, *Cows, Kiva, and Prosper.Com: How Disintermediation and the Internet are Changing Microfinance* (2008).
3. *Kiva vs. MicroPlace – What’s the Difference?* (2007).

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.
2. *The Commercialization of Microfinance*, Ch. One—Commercialization, The New Reality of Microfinance.
3. *The Commercialization of Microfinance*, Ch. 2— Transformation, Journey from NGO to Regulated MFI.
4. FINCA, *Transformation of Microfinance Institutions* (2010).
5. Harvard College Economics Review, *Central Bank Regulation and Microfinance in Africa*, (2007).

B. Corporate Governance Consequences of Transformation

1. CGAP, *Transforming NGO MFIs: Critical Ownership Issues to Consider* (2008).
2. Center For Financial Inclusion (Accion International), *Aligning Interests— Addressing Management and Shareholder Incentives During Microfinance Institution Transformations* (2009).
3. *The Commercialization of Microfinance*, Ch. Eleven—Governance and Ownership of Microfinance Institutions.
4. Centre For the Study of Financial Innovation (CSFI), *Microfinance Banana Skins 2011: Losing Its Fairy Dust* (2011)

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

A. MFI Investments as an Asset Class

1. MicroCapital, *Microfinance: An Emerging Asset Class for Debt and Equity Investors*, (2007).
2. Nicolas Krauss & Ingo Walter, University of Chicago, *Can Microfinance Reduce Portfolio Volatility?* (2009).
3. Sarah Leshner, *Building and Financing Microfinance Institutions and Their Financial Products* (2010).
4. J.P. Morgan Global Research, *Impact Investments – An Emerging Asset Class* (2010)

B. Microfinance Investment Vehicles

1. CGAP Brief, *Microfinance Investment Vehicles* (2007).
2. CGAP Focus Note, *Foreign Capital Investment in Microfinance: Balancing Social and Financial Returns* (2008).
3. CGAP Focus Note, *Foreign Capital Investment in Microfinance: Reassessing Financial and Social Returns* (2010).
4. CGAP, *Microfinance Investment Vehicles Disclosure Guidelines* (2010).
5. MicroRate, *The State of Microfinance Investment 2011* (2011).

VII. CAPITAL MARKET FUNDING OF MFIs

A. Capital Markets Generally in Funding MFIs

1. Brad Swanson, Microfinance, *The Role of International Capital Markets in Microfinance* (2006).
2. Latortue, et al., *Managing the Floodgates? Making the Most of International Flows of Microfinance Funding* (2006).

B. Senior Debt Capital

1. Deutsche Bank, *Form of Loan/Investment Approval for MFI Funding* (2010).
2. CGAP, *Commercial Loan Agreements: A Technical Guide for Microfinance Institutions* (2006).

3. Mayer Brown, *Debt Capital Markets Solutions for Financing MFIs and MFI Lending, and Financial Activities* (2010).
 4. IAMFI/Morgan Stanley, *Charting the Course: Best Practices and Tools for Voluntary Debt Restructurings in Microfinance* (2011).
- C. Foreign Exchange Rate Risk in Connection with MFI Debt Finance
1. CGAP FocusNote, *Foreign Exchange Rate Risk in Microfinance: What is it and How Can it be Managed?* (2006).
 2. J.P.Morgan Social Finance, *A Primer on Currency Risk Management for Microfinance Institutions* (2010).
- D. Securitizations, CLOs and CDOs Based on MFI Loans
1. Standard & Poor's, *Preliminary Ratings Assigned in Groundbreaking Microfinance CDO BlueOrchard* (2007).
 2. MF Analytics Ltd, *BRAC Micro Credit Securitization Series I: Lessons From the World's First Micro-Credit Backed Security* (2007).
 3. CGAP & Grameen Foundation, *Securitization, A Technical Guide* (2010).
 4. Steven Schwarcz, University of Illinois Law Review, *Disintermediating Avarice: A Legal Framework for Commercially Sustainable Microfinance* (2011).
- E. Private Equity/Venture Capital Investments in MFIs
1. J.P. Morgan Global Equity Research, *Discovering Limits: Global Microfinance Valuation Survey* (2011).
 2. CGAP & Grameen Foundation, *Negotiating on Equity Capital Infusion From Outside Investors, Technical Guide for MFIs*, Part 1/Introduction, Part II, Sample Term Sheet (2011).
 3. *Microfinance for Bankers and Investors*, Sequoia Capital: Private Equity and Indian Microfinance (2008).
- F. Initial Public Offerings for IPOs
1. *Compartamos IPO Offering Circular*, Cover, Summary, Risk Factors, the Microfinance Industry, Our Business, and Management Sections (2007).
 2. ACCION InSight: *The Banco Compartamos Initial Public Offering* (2007).

3. *SKS Microfinance Limited, Draft Red Herring Prospectus, Cover, Risk Factors, Summary of Industry, Summary of Business, The Microfinance Industry, Business and Our Management Sections (2010).*
4. *Calmeadow and the Council of Microfinance Equity Funds (CMEF), Microfinance and Capital Markets: The Initial Listing/Public Offering of Four Leading Institutions (2007)*

G. Controversies About MFI IPOs

1. *CGAP Focus Note, CGAP Reflections on the Compartamos Initial Public Offering: A Case Study on Microfinance Interest Rates and Profits (2007).*
2. *Compartamos Banco, A Letter to Our Peers (2008)*
3. *New York Times, Rich IPO Brings Controversy to SKS Microfinance (2010)*
4. *Business Standard/India, Purpose to Profits: Akula's Incredible Journey (2010)*
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)*
6. *Intellicap, Indian Microfinance Crisis of 2010: Turf War or Battle of Intentions? (2010)*

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.

Microfinance Institutions (MFIs):

<u>Organization</u>	<u>Website</u>	<u>Brief Description</u>
Accion International	www.accion.org	ACCION International is a private, nonprofit organization currently partnered with 28 microfinance institutions (MFIs), NGOs and commercial banks.
BRAC	www.brac.net	(Bangladesh Rural Advancement Committee)--the world's largest NGO. BRAC operates social enterprises that are strategically connected to development programs & form crucial value chain linkages which increase the productivity of members' assets and labor, and reduce risks of their enterprises.
Finca	www.finca.org	A global MFI network collectively serving more low-income entrepreneurs than any other MFI while operating on commercial principles of performance and sustainability.
Grameen Bank	www.grameen-info.org	MFI & community development bank founded in 1976 by Muhammad Yunus—uses the group lending model to make small loans without requiring collateral.
Kiva	www.kiva.org	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 & students.
Opportunity International	www.opportunity.org	Faith-based MFI, providing small business loans, savings, insurance and training.
SKS Microfinance	www.sksindia.com	SKS Microfinanc-- India's largest MFIs, transformed into a NFBC regulated by the Reserve Bank of India. On July 28, 2010, SKS Microfinance, went public on the Bombay Stock Exchange.

TrickleUp	www.trickleup.org	Program of microenterprise development that includes training, conditional seed capital grants, and savings.
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MFIs Targeting Women

Freedom From Hunger	www.freedomfromhunger.org	MFI offering group lending, savings, education & healthcare programs.
Women's World Banking	www.swwb.org	A network of 40 leading MFIs from 28 countries committed to women as clients, innovators and leaders.

Hybrid Development Institutions

Millennium Villages	www.millenniumvillages.org	Millennium Villages: An initiative of The Earth Institute at Columbia University, Millennium Promise, & the UNDP. Community-led development for impoverished rural communities in Africa.
Millennium Promise	www.millenniumpromise.org	

Research & Activist Organizations:

<u>Organization</u>	<u>Website</u>	<u>Brief Description</u>
Boulder Institute of Microfinance	www.bouldermicrofinance.org	Nonprofit organization founded in 2004, to create a platform for dialogue and critical thinking in microfinance.
CGAP & CGAP Microfinance Gateway	www.cgap.org www.microfinancegateway.org	CGAP is an independent policy and research center housed at the World Bank Microfinance Gateway contains CGAP's research & articles.
Financial Access Initiative	www.financialaccess.org	FAI is a consortium of leading development economists.
Microcapital Institute	www.microcapital.org	Microcapital provides monthly market reports on microfinance capital markets.
Microcredit Summit Campaign	www.microcreditsummit.org	Campaign brings together MFIs, advocates, educational institutions, donor agencies, IFIs, NGOs & others to promote best practices in the field.
Microfinance Information Exchange	www.themix.org	The Mix provides data services, analysis, research & business information on the institutions that provide financial services.
microLinks	www.microlinks.org	A knowledge-sharing family of applications & tools designed to improve the impact of USAID microenterprise programs and activities.

Next Billion	www.nextbillion.net	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.
Ohio State Rural Finance Program	www.aede.osu.edu	Applies economic & business principles to the challenges of agriculture, the food system, the environment, and economic development.
SEEP Network	www.seepnetwork.org	Practitioner-driven research, learning, & product development primarily through member-driven learning initiatives
Socialfunds.com	www.socialfunds.com	Information on SRI mutual funds, community investments, corporate research, shareowner actions, & daily social investment news.

Donors, Funding & Technical Assistance:

<u>Organization</u>	<u>Website</u>	<u>Brief Description</u>
Acumen Fund	www.acumenfund.org	Uses philanthropic capital to make investments – loans or equity– that yield both financial & social returns.
Blue Orchard	www.blueorchard.com	Blue Orchard develops & manages financial products & services that invest in MFIs.
UN Capital Development Fund	www.uncdf.org	The UNCDF offers investment capital, capacity building & technical advisory services to MFIs.
Developing World Markets	www.dwmarkets.com	Structures transactions that provide MFIS & other socially motivated organizations with access to international capital markets.
Grameen Foundation	www.grameenfoundation.org	The Grameen Foundation offers funding & technical assistance.
Imp-Act Consortium	www2.ids.ac.uk/impact	Imp-Act provides technical assistance by supporting and promoting Social Performance Management (SPM).
Intelicap	www.intellicap.net	Consulting/ help with business development process: conceiving ideas, raising investments, implementing processes, & evaluating social initiatives.
Intellicash	www.intellicash.com	Intellicash provides business franchising services to MFIs.
International Association of Microfinance Investors	www.iamfi.com	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.
MicroSave	www.microsave.org	MicroSave offers technical assistance: development of toolkits and training.
PlaNNet Finance	www.planetfinancegroup.org/EN	Technical assistance: International NGO providing: advisory services & training, a microfinance rating agency, investment company, and venture capital company with a social mission that invests directly in microentrepreneurial projects.
World Bank	www.worldbank.org	An international financial institution (IFI) that provides leveraged loans to developing countries for capital programs.

MicroInsurance

Microensure	www.microensure.com www.microinsuranceagency.com	An insurance intermediary providing a range of
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insurance products.

Microinsurance www.microinsurancecentre.org

Works with insurers and delivery channels to develop partnerships for product development, research and advocacy.
