



FINA5515A/4515A
Introduction to Microfinance
Fall 2014

WEEKS 1 TO 6			
INSTRUCTOR	Michael McIntyre	PHONE	613-520-2600 ext. 2514
CLASS TIME	WED 11:35-2:25	E-MAIL	michael.mcintyre@carleton.ca
ROOM:	CO208	OFFICE	DT1718

WEEKS 7 TO 12			
INSTRUCTOR	Sana Mohsni	PHONE	613-520-2600 ext. 2991
CLASS TIME	WED 11:35-2:25	E-MAIL	sana.mohsni@carleton.ca
ROOM:	CO208		

PREREQUISITES

FINA 5501, FINA 5502.

The School of Business enforces all prerequisites.

COURSE OBJECTIVES

This course has two objectives. First, it will introduce students to financial systems and financial intermediation. Second, it will provide an overview of the theory and practice of microfinance. Microfinance organizations are specialized financial institutions. In order to acquire an appreciation for their role and the nature of the challenges they face, a broader understanding of the role and management of financial institutions in general is required. This course will therefore outline the nature and role of the financial system, in particular the idea of financial intermediation, the economic role of intermediation, and the challenges that occur in that context. The first six weeks of the course will be devoted to these issues.

The second six weeks of the course will focus on the topic of microfinance and its related issues. Students will be exposed to the history and origins of microfinance, its goals, achievements and challenges. They will also be introduced to the role of microfinance institutions (MFIs) in managing financial risks, reaching out to clients and making MFIs sustainable. The course will also serve as a forum to reflect on the future of microfinance and financing for development in general.

A mix of cases and lectures will be used to conduct the course.

WEEKS 1 TO 6

REQUIRED TEXT

There is no formal textbook for this course. The course will be based on contemporary papers/assigned readings in the selected topics and sections of the suggested text. In addition, interested students can read the following books as supplemental reading to augment their knowledge and to get a better understanding of financial systems and financial risk management.

SUGGESTED TEXTS

Modern Financial Systems: Theory and Applications (Frank J. Fabozzi Series), E. H. Neave.
Microfinance Handbook: An institutional and financial perspective, Joanna Ledgerwood, The World Bank: Washington, D.C.

SUPPLEMENTAL READINGS

Books

Financial Institutions Management: A Risk Management Approach, Fourth Canadian Edition, by Anthony Saunders, Marcia Millon Cornett and Patricia McGraw, 2010, McGraw-Hill Ryerson
Peter L. Bernstein (1998): "Against the Gods: The Remarkable Story of Risk", 1998, John Wiley & Sons.
Knight, Frank H. *Risk, Uncertainty, and Profit*. Boston: Houghton Mifflin, 1921.

Articles

Black, F. & M. Scholes, 1973. The Pricing of Options and Corporate Liabilities. *Journal of Political Economy*, 81 (3), pp. 637-654
Cox, J. C., S. A. Ross & M. Rubinstein, 1979. Option pricing" A simplified Approach. *Journal of Financial Economics*, 7 (3), pp. 229-263.
Hassan, M. K., B. Sanchez & J. S. Yu, 2011. Financial development and economic growth: New evidence from panel data. *Quarterly Review of Economics & Finance*, 51(1), pp. 88-104.
Kar, M., S. Nazlioglu & H. Agir, 2011. Financial development and economic growth nexus in the MENA countries: Bootstrap panel granger causality analysis. *Economic Modelling*, 28 (1-2), pp. 685-693.
Langlois, R. N. & M. M. Cosgel, 1993. Frank Knight on Risk, Uncertainty, and the firm: A New Interpretation. *Economic Inquiry*, 31 (3), pp. 456-465.
Levine, R., 1997. Financial Development and Economic Growth: Views and Agenda, *Journal of Economic Literature*, 35 (June 1997), pp. 688-726.
Rousseau, P. L. & P. Wachtel, 2011. What is Happening to the Impact of Financial Deepening on Economic Growth? *Economic Inquiry*, 49 (1), pp. 276-288.
Westermann, F. And K. Diekmann, 2011. Financial Development and Sectoral Output: Growth in 19th Century Germany. *Proceedings of the German Development Economics Conference*, Berlin 2011, No. 81.

Other

General Guidance for Developing Differential Premium Systems published by the International Association of Deposit Insurers dated February 2005 and up-dated September 9, 2011. Available at

http://www.iadi.org/docs/IADI_Diff_prem_paper_FINAL_updated_Oct_31_2011_clean_version.pdf

GRADING SCHEME

Class Participation: 20%

Case Analysis: 30%

Final Exam: 50%

Students are expected to participate in discussions during class.

All course material, including content from course deliverables, is eligible for testing on the final exam. In the event a student cannot participate in class, or complete a course deliverable for a reason permitted under the university's guidelines, the weighting of the course component will be added to the weighting of the final exam provided the student submits the appropriate supporting documentation (e.g. doctor's note).

CASES

1. Envy Rides – recreational motorsport dealership – 9B10N033
2. Forest of Flowers – retail flower shops – 9B05N001
3. Kismet – distributor of tools and hobby products – 9B03N012
4. London Ski Club – not for profit ski club – 9A99N041
5. Northstar Aerospace – conglomerate in things like semi-conductors, aerospace - 9B02N025

The above is relatively large at \$40 million

6. Peak Roofing – roofing materials supplier – 9B00N026
7. Royal Manufacturing – metal fabricator – 9B05N019
8. Sophisticated Petites – clothing retailer – 9A90B042
9. Talich Fabricating – metal furniture and partition fabricating – 9A99N020

CASE REQUIRED

1. Select a case and obtain approval from me for your selection (this is to avoid the same case being done by more than one group)
2. Prepare a presentation to the class, including appropriate ppt, to be delivered in ten minutes or under by the group, with each group member to speak.
3. The presentation must:
 - a. Specify the role you are assuming and relevant particulars (you are the lender who needs to make a decision)
 - b. Describe the company

- c. Describe the nature of the decision that must be made
- d. Complete a size-up of the company (to be discussed in class 3 – what it does well, issues that concern you, threats and opportunities in its operating environment, strength of management, financial strength, etc.)
- e. Make a recommendation
- f. If the recommendation is to lend, specify the conditions you would require to ensure your loan remains safe.

WEEKS 7 TO 12

REQUIRED TEXT

There is no formal textbook for this course. The course will be based on contemporary papers/assigned readings in the selected topics. In addition, interested students can read the following books as supplemental reading to augment their knowledge and to get a better understanding of microfinance.

SUPPLEMENTAL BOOKS

The Economics of Microfinance, B. Armendariz and J. Morduch, MIT Press, 2007
 The Poor and their Money, S. Rutherford with S. Arora, Oxford University Press, 2009.
 Creating a World without Poverty, M. Yunus, Public Affairs, 2007
 What's wrong with Microfinance, Edited by T. Dichter and M. Harper, 2007.
 Microfinance for Bankers and Investors: Understanding the Opportunities and Challenges of the Market at the Bottom of the Pyramid, E. Rhyne, McGraw-Hill, 2009.

SUGGESTED ARTICLES

1. The History of Microfinance, Global Envision, April, 2006.
2. Microfinance in Less Developed Countries: History, Progress, Present- Charity or Business? K. Srnec, E. Svobodová, Agric. Econ. – Czech, 55, 2009 (10): 467–474
3. The Story of the Grameen Bank: From subsidised Microcredit to Market-based Microfinance, David Hulme, Brooks World Poverty Institute (BWPI), *Brooks World Poverty Institute, The University of Manchester*, 2008.
4. Microfinance and the Millennium Development Goals, *UNCDF*, October 2005.
5. Empowering women through microcredit: a case study of Tameer Microfinance Bank, Bahawalpur, Nosheen Nawaz, Ayesha Jahanian, and Syeda Wajiha Manzoor, *Journal of Economics and Sustainable Development*, 3:6, 2012.
6. A survey on microfinance for developing countries: A social responsible investment opportunity, R. Moro Visconti, Working Paper, Università Cattolica del Sacro Cuore, 2012.
7. Financial performance and outreach: A global analysis of leading microbanks, R., Cull, A. Demiguc-Kunt, and J., Morduch, World Bank Policy Research Working Paper, 2006.
8. Managing microfinance risk: Some observations and suggestions, N. A. Fernando, Asian Development Bank, 2008.

9. The impact of Microcredit on the poor in Bangladesh: Revisiting the evidence, D. Roodman and J. Morduch, Working Paper, Centre for Global Development, 2009.
10. What drives microfinance institution financial sustainability? A. G. Ayayi and M. Sene, *The Journal of Developing Areas* 44:1, 2010.
11. The future of Risk Management in Microfinance: Perspectives from Practitioners in the US Financial Markets, Piyush Tantia and Oliver Wyman, The Center for Emerging Market Enterprises (CEME), The Fletcher School, Tufts University, 2008
12. ACCION poverty outreach finding & analysis: BancoSol, Bolivia, ACCION, InSight, 13, 2005.
13. Enterprise-wide risk management in microfinance institutions: the ASA experience, S. Khan, ASA International, Nigeria, 2010.
14. The miracle of microfinance? Evidence from a randomized evaluation, A. Banerjee, E. Duflo, R. Glennerster, and C. Kinna, Working Paper, MIT, 2009.
15. Microfinance challenges and opportunities in Pakistan, S. Muhammad, *European Journal of Social Sciences*, 14:1, 2010.
16. Microfinance in Africa: The challenges, realities and success stories, M. Ashcroft *MicroBanking Bulletin*, 17, 2008.
17. Indian SHG microfinance experience-endeavors and challenges, M. Islam, Working paper, 2011.
18. The state of microfinance: Outreach, profitability and poverty, A. Gonzalez and R. Rosenberg, Working Papers Series, 2006.
19. Microfinance in Africa: Experience and lessons from selected African countries, A. Basu, R. Blavy, and M. Yulek, IMF Working Paper, 2004.
20. Microfinance needs regulation, A. Karnani, *Stanford Social Innovation Review*, 2011.
21. Microfinance tradeoffs: Regulation, competition and financing, R. Cull, A. Demirguc-Kunt, and J. Morduch, Policy Research Working paper, 2009.
22. Regulating microfinance: a suggested framework, S. Shankar and M. Asher, Research Paper Series, National University of Singapore, 2010.
23. Savings for the poor: Banking on mobile phones, I. Mas, *World Economics*, 11:4, 2010.
24. Microfinance: A way forward, T. Arun and D. Hulme, *Brooks World Poverty Institute Working Paper Series*, 2008.
25. From revolution to evolution: Charting the main features of microfinance, R. Mendoza and Brandon Vick, Fordham University Department of Economics Discussion Paper Series, 2008.
26. Venture capital funds for microfinance in India, A. Amarnani and N. Amarnani, Working Paper, 2010.
27. Value through diversity: Microfinance and Islamic finance and global banking, N. Ferro, *Fondazione Eni Enrico Mattei*, 2005.
28. Microfinance as business, D. Roodman and U. Qureshi, Centre for Global Development, 2006.
29. Commercialization in microfinance: a study of profitability, outreach and success factors within the Latin American context, P. Dacheva and E. Gotwalt,
30. Understanding and Dealing with High Interest Rates on Microcredit. N. A. Fernando, Asian Development Bank, 2006.

31. Why Grameen Microcredit Loans have such Low Default Rates, K. Nikolas, Helium, January 17, 2011. <http://www.helium.com/items/2068037-why-grameen-microcredit-loans-have-such-low-default-rates>
32. Microfinance: Does it hold its Promises? A survey of Recent Literature, Aliya Khawari, HWWA Institute of International Economics, Working Paper, 2004.
33. Microfinance Meets the Market, R. Cull, A. Demirguc-Kunt, and J. Morduch, World Bank Policy Research Working Paper No 4630, 2008.
34. Innovation in Microfinance-Looking beyond Income Poverty, V. Basil Hans, Working Paper, 2009

OTHER RESOURCES

Selected web links:

Grameen Bank <http://www.grameen-info.org/>
Accion International <http://www.accion.org/default.asp>
SKS, Hyderabad <http://www.sksindia.com/>
Microcredit Summit <http://www.microcreditsummit.org/>
World Council of Credit Unions <http://www.woccu.org/>
USAID Microfinance <http://www.microlinks.org/>
PlaNet Finance <http://www.planetfinance.org/>
Women's World Banking <http://www.swwb.org/>

CGAP <http://www.cgap.org/>
Microfinance Gateway <http://www.microfinancegateway.org/>
Microfinance Focus <http://www.microfinancefocus.com>
Microcapital Institute <http://www.microcapital.org/>

Islamic Development Bank <http://www.isdb.org/irj/portal/anonymous>
Grameen Jameel <http://www.grameen-jameel.com/>

Unitus <http://www.unitus.com>
Socialfunds <http://www.socialfunds.com/ci/index.cgi>
MFI Rating Fund <http://www.microrate.com/ratings-list>

GRADING SCHEME

Class Participation: 10%
Case Analysis & Presentation: 30%
Case Analysis: 20%
Final exam: 40%

Overall mark: 50% of the mark for weeks 1 to 6 plus 50% of the mark for weeks 7 to 12.

Active participation in class discussions is essential to the course since much of what you learn will come through conversations with your peers. Each student (group of students) is required to

analyze two cases as part of their course deliverables. Cases will be assigned on the first day of class and each student (group of students) will be responsible for analyzing and preparing a write-up for each of the assigned cases. One of the two assigned cases will be presented to the class. A typical case will focus on one or multiple topics in microfinance and is designed to enhance your understanding of the material covered in class and to expose you to the challenges that the field faces.

All course material, including content from course deliverables, is eligible for testing on the final exam. In the event a student cannot participate in class, or complete a course deliverable for a reason permitted under the university's guidelines, the weighting of the course component will be added to the weighting of the final exam provided the student submits the appropriate supporting documentation (e.g. doctor's note).

CASES

The list of suggested cases and the protocol for presenting cases will be discussed in class

Week	Topic	Suggested Readings in Neave
WEEKS 1 TO 6		
1	Introduction Financial system functions The composition of financial systems The role of central banks; implications of common currency areas for bank stability	Chapters 1 through 7 in Neave present a detailed discussion of the topics we touch on in classes 1 and 2.
2	Financial activity and capital formation; the role of financial systems in economic outcomes Specific problems of intermediation Deal terms, financing continuum, intermediation	
3	Credit risk and credit losses	
4	Bank management – assessing and managing credit risk Models of bank financing and runs; deposit insurance; moral hazard with deposit insurance; differential premiums	
5	Managing a bank's finances: duration, financing gaps, risk-weighted assets, capital adequacy and value-at-risk The role of CAMELS assessments	
6	Lending cases	
WEEKS 7 TO 12		
7	Introduction Origins, history, goals and evolution of microfinance Why intervene in traditional credit markets? The Grameen Bank	

Week	Topic	Suggested Readings in Neave
8	Microfinance products and services The main features of microcredit; Risk management in microfinance – assessing and managing credit risk, liquidity risk and operational risk Monitoring;	
9	The dual goal of microfinance – sustainability and outreach Performance evaluation of MFIs; Case 1	
10	Achievement and challenges in microfinance Measuring impact; high interest rates; Regulation Case 2	
11	Innovation, new techniques and the future of microfinance Commercialization of microfinance Case 3	
12	Special Topic: Islamic microfinance Case 4	

Additional Important Information

Policy on Mobile Devices

The use of mobile devices IS NOT PERMITTED in this class. It is disruptive to the instructor and class members. If you carry such a device to class, please make sure it is turned off. If an emergency situation requires you to keep it turned on, please discuss this with your instructor prior to class.

Important dates and deadlines

Group Work

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, followership and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your instructor may assign one or more group tasks/assignments/projects in this course.

Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

Person with Disabilities

Students with disabilities requiring academic accommodations in this course are encouraged to contact a co-ordinator at the Paul Menton Centre for Students with Disabilities to complete the necessary letters of accommodation. After registering with the PMC, make an appointment to meet and discuss your needs with me at least two weeks prior to the first in-class test or ITV midterm exam. This is necessary in order to ensure sufficient time to make the necessary arrangements. Please refer to <http://www.carleton.ca/pmc/> for all PMC information.

Religious Observance

Students requesting academic accommodation on the basis of religious observance should make a formal, written request to their instructors for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory academic event. Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student.

Students or instructors who have questions or want to confirm accommodation eligibility of a religious event or practice may refer to the Equity Services website for a list of holy days and Carleton's Academic Accommodation policies, or may contact an Equity Services Advisor in the Equity Services Department for assistance.

Pregnancy

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete *a letter of accommodation*. The student must then make

an appointment to discuss her needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

Academic Integrity

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another’s ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated. Penalties may include expulsion; suspension from all studies at Carleton; suspension from full-time studies; a refusal of permission to continue or to register in a specific degree program; academic probation; and a grade of Failure in the course, amongst others. Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at <http://www2.carleton.ca/sasc/advisingcentre/academic-integrity/>.