

Principles of Microfinance Spring 2015

FINA 4397-05 (25089)

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Office: 390-M Melcher Hall
Class: Saturdays **9:00-12:00 noon.** - Room 130 Melcher Hall –
Office Hours: Mondays and Tuesdays 5-6 p.m.
(So that I might devote full attention to your needs, please schedule an appointment if you need to see me outside of office hours.)
Web address: <http://www.bauer.uh.edu/Khumawala>.

E-MAIL: PLEASE use only **Blackboard Learn** to send an e-mail.

Required Blackboard Learn ID. Starting on the first day of classes, students can use their PeopleSoft ID, to log on to Blackboard Learn courses by going to <http://www.uh.edu/Blackboard>. Please contact the hotline number (713) 743-1411 any time (24/7) except university holidays with any technical issues that may arise.

Prerequisites

There are no prerequisites for this course, but a general background in business and economics will help in understanding the fundamental economic issues.

REQUIRED Texts and Readings:

Muhammad Yunus, *Banker to the Poor: Micro-lending and the Battle against World Poverty*, Public Affairs: New York, 2003 (Paperback Edition available)

Beatriz Armendariz de Aghion and Jonathan Morduch, *The Economics of Microfinance*, second edition, 2010. The MIT Press. (Paperback edition available). **Selected chapters posted on BB**

HBS Case Studies:

HBS Case: *Banco Solidario: The Business of Microfinance* (Robert E. Kennedy), 2002 [No. 9-702-019]

HBS Case: *Microfinance International Corporation: No, Not Another Microfinance Case* (Daniel J. Isenberg), 2009 [No. 808104-PDF-ENG]

HBS Case: *SKS Microfinance* (Shawn Cole, Theresa Chen) 2009. [No. 208137-PDF-ENG]

HBR Article: Business Basics at the Base of the Pyramid (Vikram Akula) R0806B-PDF-ENG

These cases can be electronically purchased by going to the following link and registering:

URL: <https://cb.hbsp.harvard.edu/cbmp/access/31899896>

OTHER Research Papers, Articles and Videos required are mentioned in the weekly assignments on Blackboard Learn. Please check Blackboard frequently to make sure you are up to date on all assignments. List of useful websites is presented on page 3

Course Objectives:

This course provides a unique opportunity to learn about microfinance and wealth creation, as an important development effort in the war against poverty. The course is designed to explore and analyze the key issues and current challenges faced with microfinance and wealth creation. In the process we will address such questions as: What is microfinance? What are the various business models used by microfinance institutions (MFI's) for wealth creation? What are common factors among successful MFI's? What is the social and economic impact of MFI's? What are the limitations of microfinance as a path for alleviating poverty? What is social venture capitalism? How to achieve a **TRIPLE Bottom Line**?

Why Study Microfinance?

Microfinance began to pick up steam with the UN tabbing 2005 as the year of Microfinance and with the father of Microfinance, Mohammed Yunus, winning the Nobel Peace prize for his work with Microfinance in 2006. Eradication of poverty through this means, which is spreading across developing countries, has now begun to see many microfinance institutions operating here in the United States in larger cities like Chicago, New York, Los Angeles and medium-sized cities like Oakland, Charlotte and Raleigh-Durham. According to most economists and President Obama, and the media (CNN etc), microfinance will be the driving force to get the US and world economy back on track. Your personal Investment Institution probably offers mutual funds specifically directed at the microfinance industry. Below are a few facts at a glance.

- Microfinance is the supply of financial services to the poor, internally displaced, and other marginalized populations who are underserved by formal financial institutions
- Microfinance is largely viewed as a highly effective way to alleviate poverty and stimulate bottom-up economic development in developing and post-conflict countries
- Loan size varies from region to region but generally averages less than \$500, while interest rates are typically between 15-30% to cover administrative costs
- There are over one billion people who are classified as poor and could therefore be potential microfinance borrowers; currently, there are nearly 77 million borrowers and over 2,200 microfinance institutions (MFIs) whose assets are worth over 22 billion US\$
- The umbrella of microfinance services includes working capital loans, education loans, housing loans, consumer loans, savings, and insurance products
- As the poor generally do not have collateral or credit histories to offer as security for loans, microfinance institutions employ nontraditional contracts to reduce risk
- Repayment rates are above 95% worldwide
- MFIs are funded by international donor organizations, grants, government and international development funds, foundations, etc.
- MFIs are run primarily by non-governmental organizations and non-profit organizations, however for-profit banks are increasingly recognizing and engaging the growing industry
- Many MFIs focus their efforts on lending solely to poor women, as research has indicated greater community impact when women are the loan recipients

The following websites contain a variety of materials and news about MFIs:

[Microfinance Gateway](#) contains research and publications, news, events and job listings for the microfinance industry.

[MIX Market](#) provides financial information on microfinance institutions.

[What is Microfinance?](#) includes FAQs about microfinance, lists of websites, orgs. & books.

Microcredit Summit: <http://www.microcreditsummit.org/>

[Directory of Development Organizations](#) for microfinance.

[International Year of Microcredit 2005](#) describes the UN year of microcredit program of 2005.

[Rural Finance Program - The Ohio State University](#) includes publications and links.

[United Nations Capital Development Fund](#) is the Microfinance arm of the UN.

[Boulder Institute of Microfinance](#).

Blum Center for Developing Economies: <http://blumcenter.berkeley.edu/>

[SKS Microfinance](#).

[CGAP](#) is a consortium of microfinance investors, home of emerging trends within microfinance.

Women's World Banking <http://www.swwb.org/INDEX.HTM>

World Council of Credit Unions <http://www.woccu.org/>

Accion International <http://www.accion.org/default.asp>

USAID Microfinance <http://www.usaidmicro.org/default.asp>

Grameen Bank <http://www.grameen-info.org/>

Grameen Foundation <http://www.grameenfoundation.org>

Planet Finance <http://www.planetfinance.org/>

Unitus <http://www.unitus.com>

Microcapital Institute <http://www.microcapital.org/>

Socialfunds.com <http://www.socialfunds.com/ci/index.cgi>

MFI Rating Fund <http://www.mfirating.org/about/index.html>

www.namaste-direct.org

www.kiva.org

www.microplace.org

www.prosper.com/

<http://www.prismamicrofinance.com/>

<http://www.freedomfromhunger.org/>

<https://promujer.org/> Giving Women Credit

<http://www.safesave.org/>

OTHER Supplementary Readings (optional):

--Marguerite S. Robinson, *The Microfinance Revolution*, June 2001, World Bank Publications.

--David Bornstein, *The Price of a Dream: The Story of the Grameen Bank*, Oxford University Press, October 2005 (Paperback Edition available)

--Muhammad Yunus, *Creating a World without Poverty: Social Business and the Future of Capitalism*. Public Affairs: New York, 2007

--Asif Dowla and David Barua, *The Poor Always Pay Back*. Kumarian Press, Inc. 2006 (Paperback Edition available)

--Muhammad Yunus, *Building Social Business*. Public Affairs: New York, 2010

PROJECTED CLASS SCHEDULE

<u>DATE</u>	<u>ASSIGNMENTS</u>
Week 1 JAN 24	<p>Introduction and Overview of Microfinance.</p> <p>The Scope of the Problem: Poverty and the Other sector. The History of informal finance What is Microfinance? http://www.microfinancegateway.com/section/faq#Q1</p> <p>Key Topics: The Theoretical Underpinnings of Microfinance. The concept of Trust, Social Collateral, and Transaction Costs. Yunus: Chs. 1-6 and Morduch: Ch.1, “Rethinking Banking.”</p> <p><i>The Economist</i>, “The Hidden Wealth of the Poor: A Survey of Microfinance.” November 5, 2005, pp. 1-10. This article is available on Blackboard</p>
Week 2 JAN 31	<p>Key Topic: The Nature of the Market Failure</p> <p>Yunus: Chs. 7-14, and Morduch: Chs. 2, “Why Intervene in Credit Markets?”</p> <p>HBS Case: <i>SKS Microfinance</i> (Shawn Cole, Theresa Chen) 2009. [No. 208137]</p> <p>Video Presentation: Banker to the Poor: The Story of Muhammad Yunus; Video available on Blackboard</p>
Week 3 FEB 7	<p>Key Topics: NGOs, MFIs</p> <p>Morduch: Ch. 3, “Roots of Microfinance: ROSCAS and Credit Cooperatives.”</p> <p>HBS Case: <i>Banco Solidario: The Business of Microfinance</i> (HBS #9-702-019)</p> <p>HBR Article: Business Basics at the Base of the Pyramid (Vikram Akula) R0806B-PDF-ENG</p> <p>Field Project to be discussed in detail</p>
Week 4 FEB 14	<p>Key Topic: Group Lending and Beyond Group Lending</p> <p>Readings: Morduch: Chs. 4 & 5. “. ”</p> <p>Video Presentation: Thinking Big and Scaling Up by Mr. Fazle Abed (Founder and Chairperson of BRAC in Bangladesh)</p> <p>Field Project:</p>
Week 5 FEB 21	<p>Key Topic: Globalization of Microfinance</p> <p>HBS Case: <i>Microfinance International Corporation: No, Not Another</i></p>

	<p><i>Microfinance Case</i> (Daniel J. Isenberg), 2009 [No. 808104] Field Project:</p>
<p>Week 6 FEB 28</p>	<p>Key Topic: Measuring the Impact of Microfinance</p> <p>Morduch: Ch. 8, “Measuring Impacts.</p> <p>Field project</p>
<p>Week 7 MAR 7</p>	<p>Amin, S., A. Rai, et al. (2002). "Does microcredit reach the poor and vulnerable? Evidence from northern Bangladesh." <u>Journal of Development Economics</u>. Paper available on Blackboard</p> <p>Epstein, Keith and Geri Smith, “The Ugly Side of Microlending,” <i>Business Week</i>, December 13, 2007. Paper available on Blackboard</p> <p>Field Project</p>
<p>Week 8 MAR 14</p>	<p>Field Project</p>
<p>Week 9 MAR 16-21</p>	<p>SPRING BREAK</p>
<p>Week 10 MAR 28</p>	<p>Field Project Week</p>
<p>Week 11 APRIL 4</p>	<p>Field Project</p>
<p>Week 12 APRIL 11</p>	<p>Field Project</p>
<p>Week 13 APRIL 18</p>	<p>Field Project</p>
<p>Week 14 APRIL 25</p>	<p>Field Project</p>
<p>Week 15 MAY 2</p>	<p>Graduation and Pitch Day</p>

Course Requirements:

Class Attendance & Participation: Since much of the class learning as usual involves students, **YOU** are **expected to prepare** for and **attend every** class. Your **class attendance and tardiness** **WILL** affect your final grade. Due to the format of this course, missing any class session will result in a student missing a large portion of the course. If you show up late and/or leave early without consulting me first, you may be counted partially or totally absent. If you are chronically late, know that this will be taken under consideration when reviewing the attendance policy. Participation in this class is separately weighted and **WILL** play a deciding role in your final grade. But remember, how much you say is not as important as the *strength and informed insightfulness* of your contribution.

Name Cards: Students will be required to bring their name cards to class and display them at all times. Should you forget your card, or don't have one, please make one for use that day.

Journal: Each student will submit a weekly journal (no more than 2 pages in length) in response to the readings and videos (if any) for that particular week after the first introductory week of class.

NOTE: In addition to items listed on this syllabus always double check Blackboard for additional reading and videos.

The weekly journal papers will follow this format:

- (1) a paragraph with an over-arching summary of the readings
- (2) three –four paragraphs that cover the following: the interlinkage among the current week's readings and the readings and topics from other weeks, the contribution of the readings to our understanding of microfinance, your personal opinion on the readings and
- (3) the bottom line that policy makers can learn from these readings, i.e. if you were a policymaker in microfinance, what would you take from this reading. ALL journal assignments must be your *own* work and *original* for this course.

Students who may miss a class for any emergency can still submit the weekly journal to be delivered to my mailbox. These must be received before the beginning of class.

Quizzes: These will be **posted online in Blackboard**. All content mentioned in the syllabus or on Blackboard may be included in a quiz. Ensure that you have read all books, articles, web links and case studies, as well as watched any video links for the week before you take the Quiz.

Bauer Microfinance Program-Project Attendance and Participation: As a student in the Microfinance Class your participation is vital to the success of the Bauer Microfinance Program in the Houston community.

Phase I: Financial Literacy Education:

During the first 4 weeks of the Bauer Microfinance Program at Ripley House-Neighborhood Center, the nonprofit organization partner will be presenting and you will be acting as a mentor to the Program Participants sitting at your table. Throughout this 4 week period you will also be expected to meet with your class team member to prepare your presentation (more detail below).

Bauer students team presentations:

During the following 6 weeks of the Bauer Microfinance Program you will be expected to present with your team during your assigned week and act as a mentor and business plan advisor

for the remaining 5 weeks. Groups/teams will be assigned (see the next bullet). Please make sure you are following and reading all notifications on Blackboard and your email.

Team-Group Presentation:

At the beginning of the semester you will be assigned to a group/team to present on a business topic (i.e. accounting, marketing, law, etc.). Then during the appropriate week you and your assigned group/team will be expected to lead the presentation & lessons on that topic for the Program Participants. More details will be given in class, on Blackboard and/or via email.

Business Plan Consultant Write-Ups:

At the beginning of the Project you will be assigned to collaborate with Program Participants on their business plan. You will be assigned to participants based on enrollment and will most likely serve as a business plan consultant to two Program Participants. Throughout the 12 week Program your objective is to help your assigned Program Participants research and write a realistic business plan. Your business plan write-up will be due at the end of the semester. More details will be given in class, on Blackboard and/or via email.

Grade:

Class Attendance & Participation:	7.5%
Journal (3 each is 2.5%):	7.5%
Quizzes (4 each is 5%):	20%
Project Attendance & Participation:	30%
Project Group Presentation:	10%
Business Plan Consultant Write-Ups:	25%

Please see Course Requirements for more details about each item. Additionally more information will be made available about each of these items in class and on Blackboard.

Verification of Grades: Student grades, including points earned for journals, will be posted on Blackboard. You are responsible for making certain that your grade is properly recorded.

Final grades will be established by rank in class, not absolute number of points. Consistent with University policy, plus and minus grades will be assigned.

WITHDRAWAL POLICY

Last day to drop a course without hours counting towards the [Enrollment Cap for Texas Residents](#) is **Wednesday February 4th, 2015**. Last day to drop a course or withdraw **without** receiving a grade is also **Wednesday February 4th, 2015**.

Last day to drop a course or withdraw with a “W” is **Monday April 6th, 2015**. You **should retain all documentation** of courses you have dropped.

INCOMPLETES:

An incomplete will be given only when the student is earning a passing grade, but is unable to complete the course because of illness