

## 2019 Boulder Microfinance Training (MFT) Course Syllabus

### Course Information

Course:	Managing and Regulating Transformation of Microfinance Institutions
Faculty:	Kimanthi Mutua, K-Rep Bank, Kenya William F. Steel, ISSER, University of Ghana
Dates:	July 29 - August 2, 2019
Time:	Afternoon (2:30am-5:30pm)
Language:	English

### Course Objectives

#### ***Understanding of institutional issues:***

- Rationale for transforming an NGO into a licensed MFI
- Benefits and risks involved
- Key decisions that must be made (ownership, capitalization, legal form, governance, products)
- Challenges and difficulties of implementation, including effects of transformation on the institution

#### ***Understanding of key regulatory and policy issues***

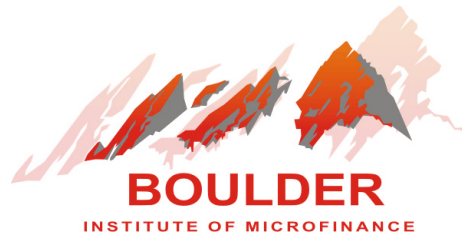
- Benefits and costs of regulation and supervision
- Tiered structures
- Uncertainties regarding implementation of legislation

#### ***Knowledge of case studies***

- Kenya (K-Rep, FAULU, KWFT); Ghana (Sinapi Aba/Opportunity International); COMESA
- Tajikistan (Oxus, Imon, Humo, Arvand); Georgia (Bank Constanta)
- Peru (Mibanco)

### Course Summary

This course uses case studies to investigate the benefits, risks and challenges of commercializing and licensing microfinance operations from the viewpoints of both the microfinance institutions and the regulators. It brings the lessons of actual experiences to bear on the issues facing managers of NGOs undergoing transformation; their investors, funders and international networks; and the policymakers and central bankers responsible for legislation, regulation and supervision. The course focuses on the lessons learned from experiences such as K-Rep Bank (Kenya), Mibanco (Peru), Sinapi Aba Trust (Ghana), Tajikistan, Bank Constanta (Georgia), and others. Particular attention is paid to the creative tension between financial goals and poverty



focus, and the implications for human resource management. The importance of a suitable legal and regulatory framework is discussed, focusing on special legislation for MFIs and the implications of requiring that MFIs transform to licensed status. Other topics include mobilization of investment capital, ownership, capitalization, governance, costs of regulatory compliance, alternative delivery channels, and product development in the context of transformation.

## Methodology

The course is team taught in such a way as to encourage discussion around the issues. Presentations of lessons learned from case studies are supplemented by the various experiences of the participants. Participants will also learn experientially through break-out group discussions on benefits and risks of transformation; the critical decisions facing an NGO Board in the midst of a difficult transformation; and the pros and cons of draft legislation for licensing Microfinance Deposit-taking Institutions.

## Course Content

### ***Module I: Background***

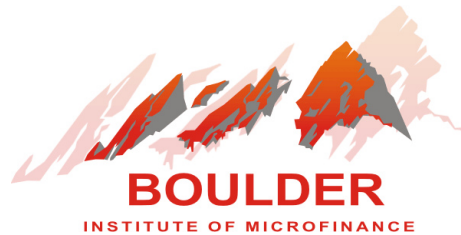
Introduction to the meaning and rationale of transformation. Historical perspective on the emergence of transformation in the 1990s as an important strategy for NGO-MFIs to improve sustainability, outreach and independence. Mibanco (Peru) case as a typical early example of the process. Discussion of the key benefits and risks of transformation.

### **Module II: Issues and Challenges of Transformation;**

Discussion of key issues and challenges of transformation based on the experience of K-Rep and other MFIs that have gone through the process, including: the decision to transform; objectives; institutional format; organizational structure; ownership and governance; finding investors and structuring the deal; human resources; data management systems and migration; and operations. A participatory case study based on an actual NGO transformation involves participants in confronting the challenges concerning staff, clients, management and governance faced by a transforming institution in mid-stream.

### **Module III: Reforming the Legal and Regulatory Framework**

A growing number of countries are enacting legislation or special regulations to permit specialized microfinance institutions to become licensed to take savings and mobilize investment, often providing different options or “tiers” in terms of ownership and taking savings deposits. Does licensing and supervision of MFIs help or hinder development of the market? What are the risks and costs involved, both to regulators and to MFIs? Key issues and lessons of experience are drawn from COMESA, Kenya, Ghana, Ethiopia, Tajikistan and other countries for legislators and regulators contemplating extending licensing and regulatory requirements to include a range of



MFIs. Participants in break-out groups will debate the merits of a typical proposed legislation and accompanying regulations from different viewpoints to discover that there is no easy answer.

## Module IV: Case Studies

Experiences of K-Rep, Kenya Women Finance Trust and FAULU in Kenya, Sinapi Aba Trust and Opportunity International in Ghana, Mibanco in Peru, and others serve as a basis for discussion of the issues and challenges involved in transforming from an unregulated to a licensed institution, or from a credit-only NGO to a deposit-taking MFI or commercial bank, and the Implications for outreach and sustainability. Experiences with new legislation in Tajikistan and Georgia are used to illustrate both positive and negative potential consequences of introducing new legislation.

## Audience

The course is designed for a diverse audience to facilitate the exchange of viewpoints among practitioners, regulators, funders and policymakers with respect to the issues surrounding the transformation and regulation of MFIs.

## Prerequisites

The course is designed to accommodate and draw on the experiences of participants from diverse backgrounds, including MFI practitioners, central bankers, donor agencies, international networks and investors, and policymakers. It has no formal pre-requisites, other than fluency in English and participation in the first two weeks of the Boulder MFT program. Nevertheless, those participants directly involved in the transformation process may wish to take the course on Transforming Microfinance Institutions for an introductory overview of the process and experiences.

## Course Organization & Readings

(principal readings on each topic; see list below)

**Monday: Background** (*readings: Ledgerwood 2006, Intro; Fernando 2003; Fernando 2004 Chs. 1-2; Lauer*)

- Ia. Introduction: Historical perspective and trends
- Ib. Discussion of benefits & risks of transformation
- Ic. Mibanco (Peru) case: experience, issues (mission drift)

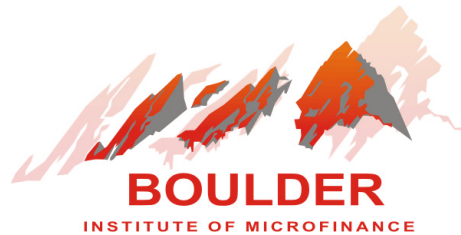
**Tuesday: Issues & Challenges** (*readings: Ledgerwood 2006 Chs. 3, 5-7, 9; Christen; Calmeadow*)

- IIa. Issues and challenges of transformation
- IIb. Breakout groups on case study

**Wednesday: Regulation** (*Ledgerwood 2006 Chs. 2, 4, 9 & 15; Christen & Rosenberg; Fernando 2004 Chs. 3-4; COMESA Ch. 3*)

- IIIa. Regulatory issues and different approaches
- IIIb. Special legislation and regulation for MFIs: break-out groups

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**Thursday: Lessons from experience** (readings: Ledgerwood 2006 Chs. 4 & 14; K-Rep)

- IVa. Experience and lessons from K-Rep (Kenya)
- IVb. Lessons from Tajikistan Law on Microfinance
- IVc. Lessons from Georgia (Constanta Case)

**Friday: Overview** (readings: FSD Kenya)

- IVd. Summary of lessons for transforming institutions (using FAULU and KWFT, Kenya)
- Participant debate (transformation vs. greenfield)

## Readings

**Main text:** Joanna Ledgerwood and Victoria White, eds., *Transforming Microfinance Institutions: Providing Full Financial Services to the Poor*, Washington, D.C.: The World Bank, 2006.

Calmeadow and The Center for Financial Inclusion, "Aligning Interests: Addressing Management and Stakeholder Incentives During Microfinance Institution Transformations," Boston: ACCION, 2010.

<http://www.calmeadow.com/research/aligning.html>

COMESA (Common Market for Eastern and Southern Africa), *Recommendations on Policy and Regulatory Framework for Financial Inclusion*, Nairobi, COMESA Country Representatives Initiative, 2016.

Financial Sector Deepening (FSD) Kenya, 2012, "Transforming Microfinance in Kenya: The Experience of FAULU and Kenya Women Finance Trust," Nairobi: FSD Kenya.

[http://www.fsdkenya.org/pdf\\_documents/12-03-06\\_Faulu\\_KWFT\\_study.pdf](http://www.fsdkenya.org/pdf_documents/12-03-06_Faulu_KWFT_study.pdf)

Robert Peck Christen, "Commercialization and Mission Drift: The Transformation of Microfinance in Latin America," Washington, D.C.: The Consultative Group to Assist the Poorest (CGAP), Occasional Paper No. 5, 2001. \*

Robert Peck Christen and Richard Rosenberg, "The Rush to Regulate: Legal Frameworks for Microfinance," Washington, D.C.: CGAP Occasional Paper No. 4, 2000. \*

K-Rep Advisory Services (Africa) Ltd., *The Case of K-Rep, Nairobi, Kenya*, Washington, D.C.: The World Bank, Global Conference on Up-Scaling Poverty Reduction, Shanghai, China, March

2004. \*[http://www.microfinancegateway.org/gm/document-1.9.24722/39321\\_file\\_56.pdf](http://www.microfinancegateway.org/gm/document-1.9.24722/39321_file_56.pdf)

Kate Lauer, "Transforming NGO MFIs: Critical Ownership Issues to Consider," Washington, D.C.: CGAP Occasional Paper No. 13, 2008. \*

Nimal Fernando, *Mibanco, Peru: Profitable Microfinance Outreach, with Lessons for Asia*, Manila: Asian Devt. Bank, 2003. <http://www.adb.org/publications/mibanco-peru-profitable-microfinance-outreach-lessons-asia>

Nimal Fernando, *Micro Success Story? Transformation of Nongovernment Organizations into Regulated Financial Institutions*, Manila: Asian Development Bank, 2004. <http://www.adb.org/publications/micro-success-story-transformation-nongovernment-organizations-regulated-financial-inst>

\*CGAP publications at: <http://www.cgap.org/publications>