

**Impact Investing: Financial Inclusion and Value Creation
at the Base of the Pyramid**

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Impact Investing: Financial Inclusion and Creating Value at the Base of the Pyramid

Introduction:

In many ways, microfinance -- the provision of financial services to low income people at the base of the pyramid -- has reached a tipping point. Evidence abounds: Mohammed Yunus – founder of one of the first and most famous microfinance institutions (MFIs), Grameen Bank – won the Nobel Peace Prize. Between October 2003 and August 2010, five of the world's leading MFIs had initial public offerings, including the thirteen times oversubscribed offering of Latin America's largest MFI, Compartamos Bank, and SKS Microfinance in India – both unwritten by mainstream investment banks (Credit Suisse, Citigroup etc). Inspired by this success, commercial banks across the globe have made a commitment to serve lower income segments through a variety of approaches (bank downscaling, service company model, wholesale financing etc). The success of microfinance have attracted other retail players – including mobile network operators (like Vodafone in Kenya and Telnor in Pakistan) and supermarket chains (like Metro Cash and Carry in India) and big box retailers (like Walmart in Mexico) – all of which have become involved in unique ways of providing financial services to the base of the pyramid. There also new “virtual players” -- like microplace.com or kiva.com – which have tried to broaden involvement by individual investors to help mainstream microfinance. As a result, clients at the base of the pyramid have improved service and greater choice, a testament to the ability of social enterprises to meet their double bottom line of achieving financial and social goals.

For those committed to broad-based financial inclusion, these successes push us to raise the bar even higher and chart out a new frontier for microfinance. This course – “Impact Investing: Financial Inclusion and Creating Value at the Base of the Pyramid” -- seeks to scope out this new frontier and explore how investment in social enterprise can catalyze breakthrough innovation to serve the poor. Specifically, the course will help students understand why early stage equity investing is used as a framework for promoting sustainable innovation and how impact investing builds off of and differs from traditional venture capital/ private equity. The course delves deeply into specific impact investment topics – like diligence, structuring deals/terms sheets, balancing needs of entrepreneurs and investors, governance, performance management, exits and how to establish an asset class of this nascent industry. The course is based on actual experience of the fund managers' work in investing and showcases companies trying to overcome existing bottlenecks to broader scale financial inclusion in the following target sectors:

- **Technology:** Automated platforms (e.g. core banking systems, switches, credit scoring, etc.) that set standards for, enhance the efficiency of, and improve the reliability and scalability of traditionally customized, paper-and people-intensive microfinance models.
- **Distribution:** Mobile banking, ATMs, cards, point of sale devices, retail agents and other “branchless banking” payment systems that lower costs and expand outreach beyond the high touch, bricks-and-mortar models most microfinance use today.
- **New Products:** financial products beyond microcredit like housing finance, microinsurance, payments and other linked value-added services that address demands by low income households.

These aforementioned sectors make up what we will refer to as the "new business model" for microfinance, which seeks to radically enhance efficiency and value of financial services delivery for the majority. The means of achieving this ends is via automation, product and channel diversification -- i.e., moving beyond the rigidly standardized, mono-product methodologies of microfinance today.

This course provides an overview for students with professional interests as:

- A socially focused investor, venture philanthropist, or grants manager responsible for screening potential companies, allocating capital, and then helping social enterprises scale and flourish
- An entrepreneur or senior manager working directly in a high growth social enterprise that has raised (or will need to raise) external capital

As such, this course has skill-building components and is grounded in case studies on social enterprises to give students a concrete sense of where the industry frontier is and how to push it forward. At the same time, the course will offer a chance to discuss important issues confronting the field.

Course Overview and Assignments:

The course combines classes on core investment skills with a deep dive into each of the aforementioned social-enterprise sectors. (Class session indicated in parentheses) This course will feature guest lectures by professionals from the investments world and executives of the companies studied.

Investment Topic	Core Sectors
Framework for double-bottom line investing (1)	New Business Model for microfinance (1)
Funding / Due Diligence / Screening (2)	New Products – Insurance (3)
Structuring deals/terms sheets (4) / Valuation (6)	New Business Model – Distribution Channels (5)
Boards / Governance (8)	New Business Model - Technology (7)
Investment Readiness: preparing entrepreneurs (10)	New Products – Housing (9)
Social performance metrics (12)/ Exits (13)	New Business Model - Risk Management (11)

The assignments in the course will mimic the documentation prepared in the investment process of a typical impact investing fund, beginning with identifying and screening potential companies, developing a desk appraisal and finally an investment proposal for approval by a mock investment committee. There are also two smaller graded exercises tied to the classes on valuation and social performance metrics. Students will be asked to synthesize the skills they have developed to prepare and defend an investment recommendation – including size, structuring of and rationale for the investment for a social enterprise of their choice or one provided by the professors. The value of each assignment is summarized below:

Assignment Schedule -- tentative, to be confirmed @ first class.					
#	Assignment	Assigned	Due Date	Handback	Grade
1	PreScreen	31-Jan	12-Feb	21-Feb	10%
2	Valuation Exercise	21-Feb	28-Feb	7-Mar	5%
	Form Groups	7-Mar	10-Mar	N/A	0%
3	Desk Appraisal	7-Mar	1-Apr	11-Apr	25%
4	Impact Assessment Exercise	See week 12	18-Apr	25-Apr	5%
5	Investment Proposal - Presentation	4-Apr	4-May	20-May	25%
	Class participation				30%

- A. **Class Participation.** The course will be in seminar style and will revolve heavily on real-world case studies. Please use the discussions questions found throughout this syllabus as a guide for your readings and to prepare for class discussions. Active, thoughtful class participation – including responses to cold-calling -- will represent **30% of the final grade.**
- B. **Writing / Presentations:** There will be 5 assignments that will count the bulk of your grade:
1. Identification and screening of potential deals of your choosing. **10% of final grade**
 2. Valuation exercise based on class 6 materials. **5% of final grade**
 3. Desk appraisal. Analysis of 1 of 3 companies presented. **25% of final grade** (8-10 pages in length) – done in the same groups that will develop investment proposal.
 4. Impact assessment of your chosen company, based on Class 12 materials. **5% of final grade**
 5. Investment Proposal: This **group assignment** will involve a **Class presentation of Investment Proposal** your team will do before a mock investment committee. **25% of final grade.**

Course Requirements:

- **Pre-requisites:** the expectation is that all students will have a *basic* exposure to financial management that includes how to read financial statements (understanding what a balance sheet, income and cash flow statements are and what they tell you about the financial condition of a company, i.e. line items) and fundamental financial concepts (TVM, IRR, NPV, etc). For those students that do not come to the class with this exposure or any experience in finance, banking or investing the professors require they commitment to take the [Introductory Finance](#) (An online Professional Development course) offered by SAIS Career Services for \$39.50 within the first 4 weeks of the semester. Please contact Martina Leinz mleinz@jhu.edu for more information regarding this course.
- **Reading:** Each class description includes a list of required and optional readings, for those interested in the topic. There may be adjustments to the reading list during the semester to incorporate new and interesting papers that merit inclusion in the course. **Most of the readings are articles from periodicals or excerpts of actual investment documents and will be available on electronic reserve.** This course assumes a fundamental understanding of economics and accounting (i.e., students should know how to read financial statements). Though there is no formal pre-requisite for the class, if students have *not* taken courses in corporate finance, private equity in emerging markets, or accounting, the professors ask that students enroll in the Corporate Valuation: A Primer to Wall Street Valuation Methodologies course offered by SAIS Career Services. In addition, for those new to or with a particular interest in the investing, the following two books will be of interest. Both books can be purchased on amazon.com, though it is not required.
 1. Wilmerding, Alex. *Term Sheets & Valuations - A Line by Line Look at the Intricacies of Venture Capital Term Sheets & Valuations*. 2006: Aspatore Books. (“**TS&V**”)
 2. Wong, Lin Hong. *Venture Capital Fund Management: A Comprehensive Approach to Investment Practices & the Entire Operations of a VC Firm*. 2005. Aspatore Books.(“**VCFM**”)

Contact information:

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Week 1 (24 January): Evolution of the Microfinance Industry / Venture Capital and Value Creation at the Base of the Pyramid

The opening lecture will provide the framework for the entire course, which revolves around two key components;

1. **New business model beyond microfinance:** The professors will recap the key trends defining the current landscape of microfinance -- commercialization, increased competition, new industry players, and globalization – and the evolution towards a new business model. The framework will briefly explain each of the key components of the new business model – technology, alternative distribution channels, and new products and services– and how they work together to push the frontier of the microfinance industry in pursuit of broad based financial inclusion.
2. **Impact investing at the base of the pyramid:** The professors will review the evolution of the field of social enterprise investing and provide a framework for how to think about the double bottom line (social and financial goals). The professor will explain the fundamentals of venture capital and why this approach is particularly relevant in catalyzing innovation and financial inclusion at the base of the pyramid, regardless of whether the capital is deployed as a grant, a market rate investment, or any number of hybrid structures.

Lecturer: Monica Brand

Required Readings:

- “Financial innovation and the poor: A place in society”, *The Economist*. September 25, 2009.
- *Impact Investments: An Emerging Asset Class* JP Morgan and Rockefeller. pp 1-29, 39-41.
- “The Next 4 Billion” – Executive Summary, Ch. 1 Introduction and Market Overview, Ch. 9: The Financial Services Market, Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, Courtland Walker. WRI and IFC. 2007.
- “Investing for Social and Environmental Impact: Executive Summary”, Jessica Freireich and Katherine Fulton. Monitor Institute. January 2009.
- “Investing for Impact: Case Studies Across Asset Classes”, Bridge Ventures, The Parthenon Group and GIIN. March 2010. *Choose a fund that piques your interest: be ready to explain why.*
- “How Venture Capital Works” by Bob Zider, *Harvard Business Review* November-December 1998, pp. 131-139.
- “Nothing Ventured, Nothing Gained: Addressing the Critical Gaps in Risk-Taking capital for Social Enterprise,” Jed Emerson, Tim Freundlich, and Jim Fruchterman. Skoll Centre for Social Entrepreneurship at Oxford SAID Business School.
- “Millions for Millions”, Connie Bruck, *The New Yorker*, October 30, 2006. (14 pages)
- Skim: Deutsche Bank Research, Microfinance: An Emerging Investment Opportunity, Uniting social investment and financial returns. December 19, 2007.
- *Emerging Markets, Emerging Models: Market Based Solutions to the Challenges of Global Poverty*. Ashish Karamchandani Michael Kubzansky Paul Frandano, Monitor. Read Executive Summary and Introduction. (pp 2-15) March 2009

Optional Readings:

- “Investing for Social & Environmental Impact” (Full Report), Jessica Freireich and Katherine Fulton. Monitor Institute. January 2009. *We strongly encourage student to look through this comprehensive report on impact investing, though only the Executive Summary is required reading.*
- “The Next 4 Billions”, Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, Courtland Walker. WRI and IFC. 2007. Full report.
- “Financial Inclusion 2015: Four Scenarios for the Future of Microfinance.” Littlefield et al. CGAP *New Focus Note # 39*.(Oct 06) www.microfinancegateway.org/content/article/detail/36552/

- “Impact of the Global Financial Crisis on Microfinance” *The Foundation for Development Cooperation Briefing Note, November 2008* <http://www.fdc.org.au/files/Publications/FDC-Briefing-Note-Nov-08.pdf>
- Article: “ Battle for the Soul of Microfinance”, Tim Hartford, The Financial Times, December 6, 2008. http://www.ft.com/cms/s/0/8080c698-c0d2-11dd-b0a8-00077b07658.html?nclick_check=1.
- “The Fortune at the Bottom of the Pyramid” C.K. Prahalad and Stuart Hart in *Strategy +Business Magazine Issue 26 Q1 2002* <http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf>
- “Big chains like Wal-Mart are getting ready to provide financial services in Mexico” Eliza Barclay, Houston Chronicle Foreign Service, Dec. 21, 2007. www.accion.org/NETCOMMUNITY/Page.aspx?pid=964

Discussion Questions:

1. Is venture capital a good framework to think about innovation in the social sector? What are the benefits and what are the limitations?
2. What does the impact investing field need to do/accomplish in order to be mainstream rather than marginal (and attract the trillions of dollars available in the capital markets – or should that not be the goal?)
3. What makes an investment an “impact investment” and how does it differ from traditional private equity in emerging markets?
4. What is the difference between microfinance and financial inclusion?

Week 2 (31 January): Investment topic: Introduction to funding, screening, and managing investments

This class will walk through the process of setting up funding vehicles to raise money and then finding promising companies that can benefit from receiving more capital and “formalization” required for institutional financing. Though the class will touch on the standard life cycle of a potential transaction – from identification to close, the focus will be on the upfront screening process which helps manager sift through deal flow to effectively utilize limited capital and staff time on those social enterprises with the potential to fulfill both financial and social objectives.

This class will prepare students to successfully undertake the first graded assignment – a screening exercise of a social enterprise (of the student’s choosing) active in the financial inclusion space.

Lecturer: Gil Crawford

Required Readings:

- Wong, Lin Hong, VCFM. Ch. 1 – Introduction, Ch. 3 – VC Organization, Ch. 6 – Deal Sourcing, Ch. 7 – Deal Screening.
- Opportunistic versus Sector and Market focused investing: Adams Capital Management: March 2002. Chapter 9, Venture Capital and Private Equity, A Casebook, Josh Lerner, 2005.
- Executive Summary of GKN
- Frontier Investments Initial Screening Tool. GKN example
- Caselet from MicroVest on Banex Investment (to be uploaded to Blackboard)
- Other Screening tools to be added to Blackboard for your review

Optional Readings:

- GEXSI’s Due Diligence Framework
(http://www.gexsi.org/downloads/GEXSI_DueDiligenceFramework.pdf)
- Dartmouth Search Funds
- *The Omidyar Tufts Microfinance Fund: Striving to Reshape the Social Enterprise Capital Markets*
Harvard Business School Case Study. January 29, 2007 Case No. 307078
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Discussion Questions:

1. What is the difference between an idea, a pilot, and an investible business?
2. With limited resources (time and money), what investment opportunities does a fund manager choose to focus on?
3. Would you recommend GKN for further diligence?

HAND OUT ASSIGNMENT 1: SCREENING OF FINANCIAL INCLUSION DEALS DUE FEB 11TH @ 3 PM VIA EMAIL TO TAS

Week 3 (7 February): New Business Model Sectors: Insurance

This class will cover the challenges of broadening microfinance from its mono-product (credit-based) origins to provision of a full range of financial services, including microinsurance. The professor will review the core components of successful insurance businesses including overcoming the key bottlenecks (moral hazard, claims fraud, excessive use, and distribution). The class will discuss two relatively new microinsurance startups and compare their business models, incorporating some of the social performance approaches discussed in the previous class.

Possible guest lecturer: Tom Brunner, Managing Director and Doug Lacey, Leap Frog Investments (the world's first dedicated microinsurance fund)

Required Readings:

- From Microfinance into Microinsurance - http://www.forbes.com/2008/11/26/aig-insurance-zurich-pf-ii-in_ak_1126soapbox_inl.html
- Insurance in Developing Countries: Exploring Opportunities in Microinsurance. Lloyd's 360 Risk Insight and Micro Insurance Centre. <http://www.lloyds.com/News-and-Insight/360-Risk-Insight/Research-and-Reports/Microinsurance/Insurance-in-Developing-Countries>
- Excerpt from "Making insurance markets work for the poor: microinsurance policy, regulation and supervision." CGAP Working Group on Microinsurance. 2009. http://www.microinsurancenet.org/publication/fichier/12_RSP_Synthesis_Document_2009.pdf
- "Focus on Microinsurance: Mitigating Risks for the Poor," *Microfinance Insights* Vol 5, December 2007. www.microfinanceinsights.com Feature Articles.
 - Microinsurance Distribution: The Missing Piece of the Puzzle
 - Disaster and Risk Insurance: Weather Risks, Index Insurance, & Financial Services for the Poor
 - Interview with Michael McCord: Balancing Profits and Social Responsibility
- "Visions of the Future of Microinsurance and Thoughts on Getting There" by Michael McCord (MicroInsurance Center). USAID Microinsurance Note 9. March 2008
- Why the World's Poor Refuse Insurance. Barbara Kiviat. TIME. Sept 21, 2009. <http://www.time.com/time/magazine/article/0,9171,1921590,00.html>
- Micro Insurance: A Safety Net with too Many [Holes.Knowledge@Wharton](http://www.knowledge@wharton.upenn.edu). Forbes.com.2010. http://www.forbes.com/2009/10/10/micro-insurance-bangladesh-entrepreneurs-finance-wharton_print.html
- Micro Insurance Agency: Helping the Poor Manage Risk. HSB Case # 9=307-089

Optional Readings:

- *Making Microinsurance Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Microinsurance* (Geneva: ILO, 2003)
- "Microinsurance Note 4: Product Development- Making Microinsurance Products Successful." Michael J. McCord. USAID, April 2007.
- "Microinsurance: Small Clients, Big Business" by Mary Powers. *Business News America's Financial Services Intelligence Series*. January 2007.
- "Health Microinsurance," by Dr. Gerry Noble (MicroCare) and Michael McCord (MicroInsurance Center). USAID Microinsurance Note 6. June 2007
- "Cruz Salud: Healthcare for Low Income Sectors" by Rosa Amelia González and Horacio Viana. Harvard Business School Publishing, Boston, MA. July 2008.

Discussion Questions:

1. Why have MFIs had limited success in selling microinsurance?
2. What would be the driving factors to make microinsurance mainstream?
3. Would you invest in Microinsurance?

Week 4 (14 February): Investment topics: Structuring Deals /Term Sheets

This investment topic will review the basic elements of putting together a transaction, including the basic terms, legal documents, and points of negotiation. Students will review an actual term sheet based on a deal examined in the previous class and should be prepared to discuss as if it were a negotiation exercise.

Possible guest lecturer: Shari Loessberg, Professor Emeritus MIT, Emerging Market Venture Capital

Required Readings:

- Wong, Lin Hong. VCFM. Ch. 15 – Deal Structuring, Ch. 16 – Term Sheet + Appendix.
- Wilmerding, Alex. TS&V. Ch. 1 – Term Sheet Basics. Ch. 2 – How to Examine a Term Sheet, Exhibit: Summary of Terms for Proposed Private Placement of Convertible Preferred Stock. Skim Ch. 3 – A Section-by-Section View of a Term Sheet.
- Youtube video: [Part 3 of 9: Fred Wilson talks to InSITE 4/6/2009](http://www.youtube.com/watch?v=DdciNv4YN1E) (<http://www.youtube.com/watch?v=DdciNv4YN1E>)
- *Create a sample term sheet using Wilson Sonsini Goodrich's online tool* (www.wsgr.com)
- Excel Worksheet – “IRR Calculation Summary”
- GKN Term Sheet (Original)
- Sheet listing common terms and definitions (to be added to Blackboard)

Optional Readings:

- National Venture Capital Association Sample Term Sheet (April 2009)
- Sample Shareholders and Subscription Agreements (hand out)
- “Trends in Terms of Venture Financings in Silicon Valley”, Fenwick & West LLP. Q3 2009.
- *Term sheet series on the Feld Thoughts blog.* www.feld.com

Discussion Questions:

1. Your team likes the business model, then they receive the term sheet. What misgivings do you have?
2. There's an adage in VC that says I'll give you the valuation, you give me the terms – what does this mean? (hint: there's a reason why we're doing this class before valuation)
3. Time is the biggest enemy of an investor, why is this true?

HAND OUT Final negotiated term sheet

Week 5 (21 February): New Business Model Sector -Distribution Channels /Branchless Banking

This class unpacks the first component of the new business model we will examine: distribution channels that provide an alternative to traditional “bricks and mortar” branches to reach poorer clients segments and more rural geographies. Among the channel innovations we will explore include mobile (cell phone) banking, cards and points of sale devices, biometric ATMs, correspondent agent retail networks, and other payment systems that will help us move beyond the high touch (loan-officer centric) microfinance models that keep costs of delivery (and corresponding interest rates) high.

Students will review actual companies innovating in the payment system space and hear from fund managers who have evaluated companies involved in branchless banking.

Possible guest lecturer: Gautam Ivatury, Partner, Signal Point Ventures

Required Readings:

- *The Early Experience with Branchless Banking*. Gautam Ivatury and Ignacio Mas. CGAP Focus Note No. 48. 2008.
- Scenarios for Branchless Banking in 2020. Mark Pickens, David Porteous and Sarah Rotman. CGAP Focus Note No. 57. October 2009.
- Accelerating Financial Inclusion through Innovative Channels: 10 obstacles for MFIs Launching Alternative Channels—and What Can Be Done About Them. Amnita Saxena. *ACCION Insight*. December 2009, Number 27
- [Excerpt](#) from Mobile Money for the Unbanked Annual Report 2010. Focus on Regulation @ BOP (pp 20-26); Agent Networks (pp 27-66); and Philippines case study (pp 81-100)
- Scaling Mobile Money, Ignacio Mas and Dan Radcliffe, Bill and Melinda Gates Foundation. Sept 2010 Social Science Research Network
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1681245
- The Future of Money: It's Flexible, Frictionless and (Almost) Free. Daniel Roth. *Wired Money*. March 2010. http://www.wired.com/magazine/2010/02/ff_futureofmoney/all/1
- FocusNote_45- Being Able to Make Small Deposits and Payments Anywhere. CGAP.
- Mobile Phone Banking and Low-Income Customers: Evidence from South Africa. Gautam Ivatury and Mark Pickens. CGAP. (2006) <http://www.cgap.org/gm/document-1.9.2953/mobilephonebanking.pdf> (WIZZIT Case)
- Grameen Foundation's PT RUMA micro-franchising case study (mobile phones in Indonesia)

Optional Readings:

- *Use of Agents in Branchless Banking for the Poor: Rewards, Risks and Regulation*. Timothy Lyman, Gautam Ivatury, and Stefan Staschen. CGAP Focus Note No. 38. 2006.
- *Assessing Payment Systems in Latin America* Economist Intelligence Unit white paper supported by Visa International (May 2005)
- *Money Transfer Solutions – Case Study Remittance Market Study*. Visa International, Latin American and Caribbean (LAC). 2005.
- *The Transformational Potential of M-Transactions*. Pgs 13-26. Policy Paper Series No. 6. Vodafone. 2007
- Regulating Transformational Branchless Banking: *Mobile Phones* and Other Technology to Increase Access to Finance. CGAP.
- Banking through Networks of Retail Agents. CGAP.
- Cardholder Use of General Spending Prepaid Cards: A Closer Look at the Market. Center for Financial Services Innovation: Sherrie Rhine, Katy Jacob, Yazmin Osaki and Jennifer Tescher. (http://www.cfsinnovation.com/research-paper-detail.php?article_id=2889)
- *Electronic Banking for the Poor*, David Cracknell (2004)

- Economic Empowerment through Mobile
(http://www.vodafone.com/start/responsibility/cr_dialogues/dialogue_3_-_economic.html)
- *Global Credit Card Use and Debt: Policy Issues and Regulatory Responses* Ronald Mann, Berkeley Electronic Press (2005)
- Card-Based Remittances: A Closer Look at Supply and Demand.
(http://www.cfsinnovation.com/research-paper-detail.php?article_id=2892)
- Financial Viability of Mobile-Phone Based Client Data Collection for Urban Microfinance. Microsoft Research India. 2007

Discussion Questions:

1. Is the move to electronic payments inevitable?
2. Do you think MFIs will incorporate branchless banking before other retail models capture market share?
3. Case Study question on one of the east African models. M-Pesa tried to replicate its model in Afghanistan and Tanzania with limited success to date. What are the factors that contributed to the success of M-Pesa in Kenya?
4. Why was M-Pesa successful and Wizzit not?*

HAND OUT ASSIGNMENT 2: VALUATION EXERCISE DUE at beginning of class 28 Feb

Week 6 (28 February): Investment Topics: Mechanics of Venture Capital Financing, including Valuation

This class will analyze the issues that arise – for both entrepreneurs and investors – when raising money at different stages of growth of the business. The class will provide a review of the different stages of financing (seed, and the initial Series A & B) and expectations associated with different rounds. The class will cover one of the delicate issues – valuation – and review the most commonly used techniques, based on multiples of earnings (or revenues), book value, and discounted cash flow. As in with all investing, valuation for social enterprises is as much an art as a science, especially given the difficulty identifying true comparables (similar companies) that are publicly traded, limited track record, and negative earnings. We will briefly review a valuation spreadsheet in class in preparation for the desk appraisal (Written Assignment #2) and final Investment Proposal (Written Assignment #3). Students with a limited financial background are invited to schedule additional time with the professors outside of class for further review.

Lecturer: Steve Wardle, Pioneer Investments

Required Readings:

- Wong, Lin Hong. VCFM. Ch. 2 – VC Financing, Ch. 13 – Valuation.
- Wilmerding, Alex. TS&V. Ch. 4 – Valuations and the Term Sheet.
- “Understanding Valuation: A Venture Investor’s Perspective”, A. Dana Callow and Michael Larson.
- A note on Private Equity Securities. Chapter 17, Venture Capital and Private Equity, A Casebook, Josh Lerner, 2005.
- Valuation Exercise: Sample Valuation Spreadsheet (Exercise to be uploaded to Blackboard)
- *A Note on Valuation in Private Equity Settings* HBS Case #9-297-050, April 2002.
- “Microfinance: Shedding Light on Microfinance Equity Valuation: Past and Present”. O’Donohoe, N. P., Rozeira de Mariz, F., Littlefield, E., Reille, X. & Kneiding, C. February 2009 pp 12-24. CGAP J.P. Morgan Research Project. Section 3 Valuations of Private Equity Transactions – Microfinance Institutions (pp 17-24). www.microfinancegateway.org/files/55483_file_OP14v3.pdf

Optional Readings:

- “Microfinance: Shedding Light on Microfinance Equity Valuation: Past and Present”. O’Donohoe, N. P., Rozeira de Mariz, F., Littlefield, E., Reille, X. & Kneiding, C. February 2009 pp 12-24. CGAP J.P. Morgan Research Project. (other sections in addition to Sec 3) www.microfinancegateway.org/files/55483_file_OP14v3.pdf
- “Valuing Microfinance Institutions” Barclay O’Brien, Opportunity International (2006)

Discussion Questions

Please complete the Valuation Exercise questions in the Sample Valuation Spreadsheet to hand in at the next class. What factors would influence your decision to stress any of these variables?

Other questions related to caselet to be uploaded to Blackboard week before class

Week 7 (7 March): Investment Topics - Boards, Directors and Governance

This class covers key governance issues in high growth companies, with a special emphasis on base of the pyramid investing, including board composition, transparency, accountability, financial and impact management, and general fiduciary responsibilities. It draws on the professors' experience on the boards of venture backed companies and both private and academic research.

Lecturer: Gil Crawford

Required Readings:

- The Basic Responsibilities of VC-backed company Directors, Working Group on Director Accountability and Board Effectiveness, October 2007.
- After the Term Sheet: How Venture Boards Influence the Success or Failure of technology Companies. A White Paper by Dennis T. Jaffe, PH.D., Saybrook Graduate School Pascal N. Levensohn, Levensohn Venture Partners, November 2003.
- The Practice of Corporate Governance in Shareholder—Owned Microfinance Institutions, Consensus Statement of the Council of Microfinance Equity Funds, (2005).
- What Makes Good Boards Great – Jeffrey A. Sonnenfeld – Harvard Business School Publishing (2002)
- Evaluating the CEO – Stephen P Kaufman – Harvard Business Review South Asia – 2008
- “Building Win-Win Investor Investee Relationships”, Peter Hinton. ShoreCap Exchange. March 2007.
- “Aligning Interests: Addressing Management and Stakeholder Incentives During Microfinance Institution Transformations (pp.1-24)”, Calmeadow and the Center for Financial Inclusion, 2010.
 - Case Study: “Annex 6 – The Case of UMU, Uganda” (pp.65-69)
- Case Study to be uploaded to Blackboard

Optional Readings:

- CMEF- Board Self Evaluation Tool – David Dewez

Discussion Questions:

1. What is the role of the Board on an early stage company?
2. Why is governance a particularly challenging concept in emerging market, BOP and social enterprise?

HAND OUT ASSIGNMENT 3: DESK APPRAISAL (including sample GKN)

- **GROUP NAMES DUE MARCH 10TH.**
- **DESK APPRAISALS DUE 1 APRIL BY 3 PM (EMAIL TO TAs)**

Week 8 (14 March): New Business Model Sector: Technology and Technical Innovation for the BOP

This class will explore the key role of technology for reducing costs delivering needed services, and catalyzing scale in businesses serving the bottom of the pyramid. A particular focus will be placed on the nature of the technical challenges, adapting versus inventing technology, and why some high profile technology based ventures have succeeded or failed.

Guest lecturer: Nicole Iden, Grameen Foundation Technology Center

Required Readings:

- Technology - a key to BOP success - Next Billion Blog Post.
- Using Technology to Build Inclusive Financial Systems, Gautum Ivatury *CGAP Focus Note No 32*. 2006.
- Human Centered Design for the Base of the Pyramid: an introduction
- Mobile Banking Technology Options: An Overview of the different mobile banking technology options, and their impact on the mobile banking market FinMark Trust (August 2007)
- CGAP Software Reviews: <http://www.cgap.org/p/site/c/template.rc/1.26.13517/>
- MicroNOTE47ICT Outsourcing Options for MFIs. Alice T. Liu. USAID September 2008.
- Microfinance Core MIS Systems—The Business Case for Outsourcing. MicroReport #114. USAID. September 2008.
- Mifos Case Study

Optional Readings:

- *Transforming MFIs*, Ed Victoria White & Joanna Ledgerwood:
 - *Management Information Systems*, Geraldine O'Keefe and Laura Frederick.
 - *Chapter on Human Resources*
- IT Doesn't Matter, Nicholas G. Carr, Harvard Business Review, May 2003.
- Why IT Matters in Midsized Firms, Harvard Business School Working Paper Series, September 1, 2005.
- Banking on Mobiles: Why, How, for Whom? Consultative Group to Assist the Poor (CGAP), July 2008, Ignacio Mas, Kabir Kumar
- Mobile Phones for Microfinance *CGAP Brief* (2006)

Discussion Questions:

1. Why do experts say that most challenges in commercializing technology business models have nothing to do with technology?
2. What is the role of technology in expanding financial inclusion?
3. If you were the ACCION team in Mifos, what would you do (ie opt for a smaller round, look for other investors, give up the deal, other)?

ENJOY SPRING BREAK: 21-27 MARCH

Week 9 (28 March): New Business Model Sector: Housing

This class will cover the challenges of broadening microfinance from its mono-product (credit-based) origins to provision of a full range of financial services, with a particular focus on housing at the base of the pyramid. The course will begin providing a framework for low income housing finance, including home improvement (the natural extension of traditional microcredit in larger amounts and longer terms to finance incremental building projects – like adding a room or repairing a roof) and mortgages – longer term financing (typically 10-15 year terms) secured by the underlying asset (the home and/or property). The readings will include a discussion of the bottlenecks to scale in low income housing finance (lack of available housing stock, murky title and property rights, illiquid or non-existent secondary markets, limited medium and long term financing etc.) and case studies on companies overcoming these challenges through innovative business models. To reinforce the learnings of the previous class, the professor will walk through a valuation exercise done on a housing deal for purposes of class discussion.

Possible guest lecturer: Sasi Thumuluri, Habitat for Humanity Housing Fund

Required Readings:

- “The Housing Market” Chapter 6 of *The Next Billion* http://pdf.wri.org/n4b_chapter6.pdf
- *How Can the Private Sector Become More Engaged in Housing Finance Solutions for the Poor?* Lauren Moser, Vice President, Shorebank International. http://www.habitat.org/hfhu/programs/cgap_working_group/pdf/Debate_Framing_Leveraging_the_Private_Sector.pdf
- “Global Trends in Housing Finance” *The Banker*, January 2007 <http://ihfp.wharton.upenn.edu/2007Readings/A-Global%20Trends.pdf>
- Building Houses, Financing Homes: India’s Rapidly Growing Housing and Housing Finance Markets for the Low-income Customer. Anamitra Deb, Ashish Karamchandani and Raina Singh. Monitor Inclusive Markets. July 2010.
- World Bank Presentation May 2010 Housing Forum, James Hogans Bankable Frontiers Associates
- “Getting to Scale in Housing Microfinance: A Study of ACCION Partners in Latin America,” Nino Mesarina and Christy Stickney. ACCION International Insight #21. 2006.
- *Patrimonio Hoy: A Financial Perspective*. HBS Case Study #9-207-059

Optional Readings:

- “Housing Microfinance: Is the Glass Half Empty or Half Full?” Bruce Ferguson, *Global Urban Development: Selected Articles* Volume 4, Issue 2 (November, 2008)
- “A Report on Low Income Housing in India: Challenges & Opportunities for Microfinance” *Centre for MicroFinance at the Institute for Financial Management and Research (IFMR)*, Habitat for Humanity – Chennai. June, 2007 http://www.habitat.org/housing_finance/pdf/low_income_housing_in_india.pdf
- “Putting the ‘Housing’ Back Into Housing Finance for the Poor: The Case of Guatemala.” Irene Vance, *Global Urban Development: Selected Articles* Volume 4, Issue 2 (November, 2008)
- “Building the Homes of the Poor – One Brick at a Time: Housing Improvement Lending at Mibanco.” ACCION InSight Number 4. Warren Brown. January 2003. (*Further optional reading for those interested in the topic.*)
- “Scaling up Slum Improvement: Engaging Slum Dwellers and the Private Sector to Finance a Better Future” David Painter et al – International Housing Coalition website – www.intlhc.org

Discussion Questions:

1. How did Cemex come up with the idea of upon Patrimonio Hoy?
2. Would you consider Patrimonio Hoy a success story?
3. Would you invest in it? (Hint: Go back to Class 2)
4. What do you think about the potential of early stage equity investment in the housing sector at the base of the pyramid?

Week 10 (4 April): Investment Topic: Investment Readiness / Preparing Social Entrepreneurs for Institutional Financing

Social entrepreneurs develop powerful ideas and practical business models that can address social needs on a massive scale throughout the world. However, they do not always reach the potential their ideas deserve. This class will address how social entrepreneurs can prepare for and fully leverage investment capital from institutional investors, starting by differentiating among the various stages of social enterprise – i.e., the difference between an idea, a project, a company and a business. Each step requires a different type of investor and involves a different due diligence/ deal structuring. Used optimally, impact investors can help aspiring entrepreneurs improve their operational performance, strengthen their governance, and reach their growth milestones. Thus, this class will discuss how social entrepreneurs can become “investment-ready” in terms of measuring and monitoring performance, clarifying goals and milestones, determining how much capital is required and how it will be used, understanding how investors can help them realize their vision.

Possible guest lecturer: John Schroeder, impact investment consultant

Required Readings:

- Relevant Excerpts from Getting to plan B- or better for Governance or Exit class? Review of *Getting to Plan B*: http://www.getting-to-plan-b.com/Documents/impactexecutives_planB.pdf
- Blog Post from Brad Magrath, Founder of Mobile Transactions Limited Zambia re: handing over the reins. http://mobiletransactionsinternational.blogspot.com/2010_09_01_archive.html

Optional Readings:

- To be added to blackboard

Discussion Questions –

1. What's the difference between an idea, a pilot and an investible business?
2. Why do investors care so much about key performance indicators?
3. What are the implications of under/overestimating how much capital you need to raise as an early stage startup?

HAND OUT ASSIGNMENT 5: FINAL INVESTMENT PROPOSAL

(Sample GKN Final Presentation)

DUE May 4-6th before final exam period – presentations to be scheduled with professor, who will present windows from which to select

Week 11 (11 April): New Business Model: Risk Management +Other Sectors

This class will cover the final component of the new business model – risk management, and other sectors considered by those investing “beyond microfinance”. Coverage of the first subject will include a brief lecture on risk management and the scoring components that have been instrumental in enabling conventional financial institutions in industrialized economies to reach lower income clients in a sustainable manner. The second topic will recap other areas being targeted by “beyond microfinance” funds (including Bamboo / Oasis, Omidyar Network, Acumen and Gateway Microfinance Innovation) including energy, water, and education and will include profiles of companies from the portfolios of these different players.

Possible guest lecturer: Ryan Klinghoffer and Tanir Helayel, PMD Capital

Required Readings:

- Credit Bureau Knowledge Guide. International Finance Corporation (2006)
[http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/FI-CB-KnowledgeGuide-E/\\$FILE/FI-CB-KnowledgeGuide-E.pdf](http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/FI-CB-KnowledgeGuide-E/$FILE/FI-CB-KnowledgeGuide-E.pdf)
- *Predictive value of Alternative Credit Scores*, Center for Financial Services Innovation
http://www.cfsinnovation.com/research-paper-detail.php?article_id=330262
- *A Risk Management Framework for Microfinance Institutions* GTZ, July 2000
- “Credit Scoring” Daniel G. Salazar et al. *CGAP IT Innovations Series* (2004) Discusses how successful credit scoring is in microfinance.
- “Scoring: The Next Breakthrough in Microcredit?” Mark Schreiner. CGAP Occasional Paper No. 7 (2003). Focus on pp 1-12 and pp 46-49. *Optional: Those students interested in the topic of credit scoring can read entire document, which is very informative and well-written.*
- Payment Reporting Builds Credit Mini Case Study.

Optional Readings:

- “Credit Bureaus: A Necessity for MicroFinance?” Anita Campion & Liza Valenzuela. Chapter 13 in *The Commercialization of Microfinance*, Eds. Deborah Drake and Elisabeth Rhyne. Kumarian Press, Inc: 2002 (pp. 269-292)
- “Scoring: The Next Breakthrough in Microcredit?” Mark Schreiner. CGAP Occasional Paper No. 7 (2003). *Optional: Those students interested in the topic of credit scoring can read entire document, which is very informative and well-written.*

Discussion Questions:

1. Why were credit scoring and credit bureaus so instrumental in bringing banks down market (i.e. serving small businesses with small loans in the US)?
2. Why has it been so difficult to bring credit bureaus and credit scoring to the emerging markets?
3. Why did PRBC fail?

HAND OUT WINDOWS FOR PRESENTATION May 4-6th. Preferred times to be sent to TA by 16 April

Week 12 (18 April): Investment Topics: Social Performance Metrics

This class will review different approaches to measuring social performance – a task particularly challenging once we move “beyond microfinance” given the diversity of industries and sectors. For example, how does one compare the efficiency gains of a technology innovation with the value added to clients from access to a new financial product (such as insurance)? Is it realistic to compare the social return on an investment in healthcare in Peru with housing in India? Students should read carefully the alternative approaches presented in the readings to participate thoughtfully in the discussions of the challenges and tradeoffs. [Include a scoring exercise??]

Possible guest lecturer: Margot Brandenburg, Rockefeller Foundation –Impact Investing Initiative, Jeff Toohig (Grameen Foundation) and Steve Wardle

Required Readings:

- *Catalog of Approaches to Impact Measurement: Assessing Social Impact in Private Ventures (Version 1.1)* May 2008 Sara Olsen and Brett Galimidi
- Why Social Performance Management? A Note for Investors, MIVs and Donors. Social Performance Task Force. http://api.ning.com/files/9W*9e-hsaA-NZIfw1*DWz1xxnTjrtP8xWCDset7x6t4kO9Lu6AIQpVzFyEbZWdENhR5V5Fp43A0Yeyn2TnyDOLFUsJYIXJpK/MakingtheCaseforSPMInvestorDonors.pdf
- Towards Triple Impact: Toolbox for Analysing Sustainable Ventures in Developing Countries. *United Nations Environment Programme, 2009*
- What is Social Performance? *James Allman-Gulino, KF11 Uganda*
<http://www.socialedge.org/blogs/kiva-chronicles/what-is-social-performance/?searchterm=social+performance>
- [Architects of a Social Investment Data Engine](#). Tom Stabile. Financial Times April 11, 1020
- Protecting Microfinance Borrowers, CGAP Focus Note No. 27, May 2005. David Porteous. <http://www.cgap.org/p/site/c/template.rc/1.9.2571/>
- Progress out of Poverty Index (PPI) – <http://www.progressoutofpoverty.org/understanding-the-progress-out-poverty-index> and Case Study: http://www.progressoutofpoverty.org/system/files/Fonkoze_Case_Study_EN.pdf
- HBS Case Study on Acumen Fund

Optional Readings:

- “Putting the Social into Performance Management: A practice-based guide for microfinance” by Anita Campion, Chris Linder & Katherine E. Knotts. IMP-Act Consortium. 2008: http://www2.ids.ac.uk/impact/SPM_Practice_Guide.pdf
- “Promoting the development of social ratings of microfinance institutions” by M-Cril and Microfinanza. 2009. <http://www.m-cril.com/BackEnd/ModulesFiles/Publication/TheDevelopmentOfSocialRating.pdf>
- Center for Financial Inclusion: Beyond Codes Initiative (based on pro-consumer pledge -- <http://www.accion.org/NETCOMMUNITY/Page.aspx?pid=846&srcid=740>)
- NCIF Social Performance Metrics: A Quantitative Approach to Measuring the Social Impact of Banks and Thrifts, and to Investing Capital in the Community Development Banking Sector. By Saurabh Narain and Joe Schmidt, National Community Investment Fund. <http://www.communityinvest.org/documents/20080716WhitePaperonNCIFSocialPerformanceMetrics-FINAL.pdf>
- Client-Responsive Microfinance: Social Performance Management and Improving Savings Services for the Poor. By Patrick Crompton, Finca International; Gary Woller, Woller & Associates; Rani Deshpande, CGAP. Presented at Microenterprise Development in a Globalizing World: A USAID Learning Conference, June 16, 2006. http://www.microfinancegateway.org/files/42796_file_24.ppt

- “The Impact of Microfinance: A Review of Methodological Issues” Dean Karlan and Nathanael Goldberg. http://karlan.yale.edu/p/Doing_ie_series_07.pdf
- “Maintaining the Double Bottom Line in Investor-Owned Microfinance Organizations” Elisabeth Rhyne. *MicroBanking Bulletin*, Issue #11, August, 2005.

Discussion Questions:

1. Why has developing social performance metrics been such an elusive process for the industry?
2. Some critics of social performance measurement say that impact investors have a higher bar. Do you find that a reasonable argument?
3. Acumen case study: What are the benefits and potential shortfalls of the Acumen BACO approach to social performance measurement? The Grameen PPI? As a social investor, which would you choose and why?

HAND IN ASSIGNMENT 4: IMPACT ASSESSMENT EXERCISE

(Provide answers to the questions below with respect assigned company)

- Why is this Company seeking Impact Investing Capital?
- What is the need being serviced?
- How is this company setting up to create impact (target/ geography)?
- What metrics assessment tools would you use to measure the performance of this company?

CONFIRM PRESENTATION TIMES 4-6 MAY

Week 13 (25 April): Investment Topics: Exits

This investment topic is intended to help students think about investing by beginning with the end in mind: getting your capital back with an acceptable return so it can be redeployed to the next promising business. The class will incorporate examples of different types of exits – including strategic sales and initial public offerings – drawing from both successful and problematic real world examples. The lecturers will share lessons learned from their experience, as well as what defines a successful exit. We will focus on how to set the foundation for successful exits, beginning with the screening and aligning interests negotiation. *Students should come to class prepared to share findings of a web search on a recent liquidity event and having thoroughly reviewed the required readings.*

Lecturer: Gil Crawford

Required Readings:

- “The Banco Compartamos Initial Public Offering,” Elisabeth Rhyne and Andres Guimon, ACCION International InSight #23. 2007.
- SKS IPO:
 - “Indian Microfinance Goes Public: The SKS Initial Public Offering”, CGAP. September 2010. <http://www.microfinancegateway.org/gm/document-1.9.47761/FN65-1.pdf>
 - “Profiting from poverty? Microfinance IPO sparks debate”, Rina Chandran, Reuters. April 9, 2010. <http://www.reuters.com/article/idUSTRE63814G20100409>
 - “SKS Launches India’s First Microfinance IPO”, Erika Kinetz. The Associated Press. <http://abcnews.go.com/Business/wireStory?id=11270209>
- “Wholesome Investing.” Venture Capital Journal. July 1, 2008. http://goodcap.net/resources/Venture_Capital_Journal_july108.pdf
- Select Articles from the Science, Entrepreneurship + Technology website (MaRS):
 - “Balancing the social/environmental and financial returns in an exit”, <http://www.marsdd.com/entrepreneurs-toolkit/articles/Balancing-the-Social-Environmental-and-Financial>Returns-in-an-exit>
 - “Financial exit strategies for social ventures”. <http://www.marsdd.com/entrepreneurs-toolkit/articles/The-Social-Venture-Exit-Part-2>
 - “Exit strategies for social enterprises (SEs) and social purpose businesses”. <http://www.marsdd.com/entrepreneurs-toolkit/articles/The-Social-Venture-Exit-Part-1>
- Grameen Phone IPO:
 - “Grameen Telecom hears the call to take on poverty,” by Rhys Blakely, *The Times*, November 17, 2008.
 - “Grameen Shareholders Committed to IPO Process,” <http://www.grameenphone.com/index.php?id=416> and <http://www.thedailystar.net/story.php?nid=47143>
- MicroPlace sale to eBay
 - “MicroPlace, an eBay Company”, MicroCapital. Volume 2, Issue 11. November 2007. http://www.microcapital.org/downloads/HN4RTQ/MicroCapitalMonitor_Nov07.pdf
 - “Who Won the Giving Season? A New Player Emerges”, Non-Profit Tech Blog. January 29, 2008. <http://www.nonprofittechblog.org/who-won-the-giving-season-a-new-player-emerges>
- “Green Dot IPO Shows Strength of Prepaid Market”, American Banker. July 12, 2010. <http://www.cfsinnovation.com/publications/article/440569>
- “Exit Strategies for Social Entrepreneurs”, Suzi Sosa. October 21, 2010. <http://www.inc.com/article/2010/10/exit-strategies-for-social-entrepreneurs.html>
- Case Study to be uploaded to Blackboard

Optional Readings:

- Webcast: *Profiting from the Poor? A Discussion on Microfinance IPOs*. Clinton Global Initiative. 2010. http://www.clintonglobalinitiative.org/ourmeetings/2010/meeting_annual_multimedia_player.asp?id=83&Section=OurMeetings&PageTitle=Multimedia
- "Rich IPO Brings Controversy to SKS Microfinance", Stephanie Strom. The NY Times. July 29, 2010. <http://www.nytimes.com/2010/07/30/business/30micro.html?dbk>
- Ira Lieberman's paper, Microfinance and Capital Markets: The Initial Listing / Public Offering of Four Leading Institutions
- "Microfinance Cracking the Capital Markets II," Rekha Reddy. ACCION International InSight #22. 2007.*
- "Characteristics of Equity Investment in Microfinance: A Report by the Council on Microfinance Equity Funds," James Kaddaras and Elisabeth Rhyne. 2004. http://www.accion.org/micro_pubs_list.asp
- "Perspectives from the Council of Microfinance Equity Funds," Elisabeth Rhyne pp 8-16. "The Financing of Microfinance." *Small Enterprise Development Journal*, Volume 16 Number 1 March 2005.
- "Accessing Capital Markets," *Microfinance Handbook: An Institutional and Financial Perspective*. Joanna Ledgerwood. World Bank, 1999.

Discussion Questions:

1. What are the advantages and disadvantages in pursuing public offerings as exits for BPO, emerging markets and social enterprises?
2. What do you think the viable exits are for GKN?
3. Questions on Case Study

Week14 (4-6 May): Investment Presentations!!

At a pre-determined time agreed to with professors, the students will present a mock presentation of Stage 2 Report to Investment Recommendation to Investment Committee, based on materials prepared by professors. 3 teams of up to 5 members each. More detailed description of assignment will be handed out in class and posted on BlackBoard