Alternative Financial Systems and Intermediation
IBUS 3000 (3 credits / 45 class hours)

SIT Study Abroad Program:
Switzerland: Banking, Finance, and Social Responsibility

PLEASE NOTE: This syllabus represents a recent semester. Because courses develop and change over time to take advantage of unique learning opportunities, actual course content varies from semester to semester.

Description
Banking institutions thrive on financial intermediation, the process through which banks take funds from a depositor at a low rate of interest and then lend them to a borrower at a higher rate of interest. However, recent successive crises in the international financial system have drawn attention to the important role that can be played by alternative systems of financial intermediation. Alternative financial intermediation systems are defined as non-market (stock or bond) and non-modern banking sources, including external financial channels that make it possible for an individual or a small enterprise to access credit that would not otherwise be available to them through modern banking systems. Alternative financial channels are proving to be equally important funding sources in both developing and developed countries. This seminar aims to explore alternative forms and practices of financial intermediation (formal and informal) and their role in the empowerment of individuals and groups that are usually not serviced by modern banking channels and institutions. Modules include solidarity economies and intermediation, microfinance and social entrepreneurship, and Islamic banking and financing.

Learning Outcomes
The Alternative Financial Systems and Intermediation course comprises 45 class hours of instruction (3 credits). Upon completion of the course, students will be able to:
- Demonstrate awareness of formal and informal alternative systems of financial intermediation;
- Define the role of solidarity economies in the expansion of values of equity and social justice;
- Explain the role of microfinance, micro-credit, and social entrepreneurship NGOs in financial intermediation;
- Show understanding of the conceptual framework of Islamic banking and its implementation in Europe;
• Produce a critical research paper on a case study involving the use of an alternative financial intermediation system.

Language of Instruction
This course is taught in English, but students will be exposed to vocabulary related to course content through in-country expert lectures and field visits in a wide range of venues and regional locales.

Course Schedule

Module 1: Solidarity Economies and Intermediation
Solidarity economy is founded on the core values of cooperation, equity, and social justice. As defined by Ethan Miller, solidarity economy “embraces a plural and cultural view of the economy as a complex space of social relationship in which individuals, communities, and organizations generate livelihoods through many different means and with many different motivations and aspirations—not just the maximization of individual gain.” (http://www.geo.coop/node/35) This module addresses the limits of neoliberalism, alternative financial sectors, and case studies of solidarity economies.

Session 1: The Limits of Neoliberalism
This session provides an analytical overview of the limits of capitalism and the neoliberal model and the search for more inclusive ‘other economies’ that could provide disenfranchised groups access to resources such as health, education, cultural centers, and alternative means for financial intermediation.

Required Reading:

Session 2: Alternative Financial Sectors and Intermediation
This session addresses alternative financial sectors and intermediation. The focus is on forms of alternative finance such as informal credit agencies, funds from family and friends (in the form of equity and/or debt), and trade credits.

Required Reading:

Session 3: Case Studies of Solidarity Economies
This session analyzes sample case studies of solidarity economies which include workers’ and women’s cooperatives and alternative production systems and looks at their impact in emerging counter-consciousness and capacity for the development of alternative modes of production.

**Required Reading:**

### Module 2: Microfinance and Intermediation
This module focuses on microfinance as an important channel of intermediation between the poor and credit. Sessions provide an analytical overview of the important role of outreach that microfinance NGOs play as well the impact of microcredit on development. The module also addresses Islamic microfinance as an alternative form of intermediation.

**Session 1: Microfinance NGOs and Intermediation**
This session addresses the intermediation of microfinance NGOs in their role as providers of funds to the disenfranchised who do not have access to modern forms of credit. The session is focused in particular on the importance of microfinance in the fight against poverty.

**Required Reading:**


**Session 2: Microcredit and Development**
This session is focused in particular on the impact of microcredit in development. The question to answer is the extent to which microcredit has been effective in poverty reduction and economic development.

**Required Reading:**


**Session 3: Islamic Microfinance**
Islamic microfinance combines microfinance’s power of outreach with the social tenets of Islamic law. About 72% of Muslims worldwide do not use modern banking systems, even if they have access to them, because they do not see them as compatible with Islamic law and their religious principles. This session addresses emerging business models of Islamic microfinance and explores the potential impact of this alternative form of intermediation on low-income Muslims.

**Required Reading:**
Hassan, Kabir and Mahlknecht, Michael (2011) *Islamic Capital Markets: Products and Strategies*. Chichester, UK: John Wiley & Sons Ltd (Chapter 20)
Module 3: Islamic Banking: Conceptual Framework
This module provides an overview of the conceptual framework of Islamic banking. The focus is on the principles of the prohibition of interest or usury, liability and business risks, ethical and moral standards, and the concept of social responsibility in Islamic finance. The module also provides a brief comparative overview of Islamic and conventional banking.

Session 1: Islamic Finance: A General Overview
This session provides a general introduction to Islamic finance. The focus is on the Islamic theory of justice ('adl): the 'right' (haqq) as result of the divine 'decree' (hukm). The session also provides a brief comparative overview of the concept of justice in Islamic philosophy and Western theories of justice.

Required Reading:

Session 2: Principles of Islamic Banking and Investment
This session provides an analytical overview of Islamic economics including Islamic contract law, financial accounting for Islamic banking products, and Islamic assets and fund management.

Required Reading:

Session 3: Islamic Finance and Social Responsibility
This session addresses the principles of economic justice and social responsibility in Islamic finance, including corporate social responsibility. The focus is on values such as legitimate profit maximization, just wages for employees, fair dealings with customers through the prohibition of riba (interest), and good corporate governance.

Required Reading:
Hassan, Kabir and Mahlknecht, Michael (2011) Islamic Capital Markets: Products and Strategies. Chichester, UK: John Wiley & Sons Ltd (Chapter 3)

Module 4: Islamic Banking in Europe
This module is focused on Islamic banking in the context of Europe. Europe is home to millions of Muslims, who, for the most part, resent the intermediation of modern/conventional banking institutions because of the use of usury (interest). Islamic banks provide an alternative finance system to the Muslim community, but they have also adapted to the EU legal framework and the specificities of each state.

Session 1: Islamic Banking and the EU Legal Framework
This session addresses the operation of Islamic banks and financial institutions in the context of the EU legal framework.

Required Reading:  
Cheltenham, UK & Northampton, MA, USA: Edward Elgar Pub (Chapter 10)

Session 2: Islamic Banking in Turkey  
This session is focused on the case of Turkey, a predominantly Islamic state with developed Islamic banking institutions and aspirations to join the EU space.

Required Reading:  
Cheltenham, UK & Northampton, MA, USA: Edward Elgar Pub (Chapter 15)

Session 3: Islamic Finance and *Laïcité*: the Case of France  
This session analyzes the particular case of Islamic banks in France, where the state’s avowed policy is *laïcité*. The purpose is to explore how state policy and regulations and banking institutions interact.

Required Reading:  
Cheltenham, UK & Northampton, MA, USA: Edward Elgar Pub (Chapter 13)

Module 5: Financial Intermediation Systems and Risk  
This module is devoted to the analysis of risk associated with alternative financial intermediation systems. Since alternative intermediation systems are not driven by profit maximization, it is interesting to study how they minimize investment risks.

Session 1: Islamic Banking and Risk  
This session focuses on the case of Islamic banking and risk minimization. Since a fundamental principle of Islamic banking is the prohibition of interest, it is important to study how Islamic banks minimize investment risks and ensure growth.

Required Reading:  

Session 2: Shadow Banking and Risk  
This session is devoted to shadow banking, the unregulated activities of a regulated system, investment risk, and the role shadow banking plays in economic growth.

Required Reading:  

Session 3: Intermediation and Risk in Post-Recession  
This session is focused on intermediation and investment risk in a post-recession environment. The view is that the global market share for alternative intermediation is set to increase as alternative intermediation systems take on more lending activities.
**Required Reading:**

**References**


**Evaluation and Grading Criteria**

Papers will be graded on style and structure, depth of analysis, and synthesis of secondary and primary sources.

**Description of Assignments:**
Midterm assessment, final exam, and participation constitute the seminar requirements. In all exercises, students are asked to reflect analytically and to integrate the briefings, lectures, readings, as well as field visits.

- **Midterm paper:** midterm assessment includes an analytical paper on an issue related to international finance, financial crises, and social responsibility covered in the first three modules. The paper should be 6-8 pages long.
- **Final exam:** this is an in-class exam. Students will have to respond to essay questions related to modules 4, 5, and 6.
- **Participation:** attendance, punctuality, active involvement in discussions, and completion of reading assignments are absolutely essential for passing this seminar.

**Assessment:**

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<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Final exam</td>
<td>50%</td>
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<tr>
<td>Midterm paper</td>
<td>40%</td>
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<tr>
<td>Participation</td>
<td>10%</td>
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**Grading Scale:**

- 94-100%          A
- 90-93%           A-
- 87-89%           B+
- 84-86%           B
- 80-83%           B-
77-79%  C+
74-76%  C
70-73%  C-
67-69%  D+
64-66%  D
below 64%  F

Expectations and Policies

- **Show up prepared.** Be on time, have your readings completed and points in mind for discussion or clarification. Complying with these elements raises the level of class discussion for everyone.
- **Have assignments completed on schedule, printed, and done according to the specified requirements.** This will help ensure that your assignments are returned in a timely manner.
- **Ask questions in class. Engage the lecturer.** These are often very busy professionals who are doing us an honor by coming to speak.
- **Comply with academic integrity policies** (no plagiarism or cheating, nothing unethical).
- **Respect differences of opinion** (classmates, lecturers, local constituents we engage with on site visits). You are not expected to agree with everything you hear, but you are expected to listen across difference and consider other perspectives with respect.

Please refer to the SIT Study Abroad handbook for policies on academic integrity, ethics, warning and probation, diversity and disability, sexual harassment, and the academic appeals process.