

## Alternative Financial Systems and Intermediation

IBUS 3000 (4 credits / 60 hours)

### Switzerland: Banking, Finance, and Social Responsibility

*This syllabus is representative of a typical 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, Islamic banking and financing, and the future of finance in an Internet driven information society.

The seminar also covers the financial code of ethics and addresses sustainable financing, socially responsible investment (SRI) issues, ethical banking, and practical aspects of integrating environment, social justice, and corporate governance (ESG) issues into institutional investment. The seminar also includes organized visits to public, international, and financial Institutions (government, international organizations / NGOs, corporate sector, and museums).

#### Learning Outcomes

The *Alternative Financial Systems and Intermediation* course comprises 60 hours of instruction (4 credits). Upon completion of the course, students will be able to:

- Explain the connection between alternative financial systems, financial intermediation and social responsibility.
- Comparing alternative financial systems and intermediation with conventional financial institutions;

- Identify how the solidarity economy helps promote the ideals of social justice;
- Explain the role of microfinance, micro-credit, and social entrepreneurship in financial intermediation;
- Explore the concept of Islamic banking and assess the activities of Islamic financial intermediaries in Europe;
- Assess the super trends of finance in the era of the information society, Internet governance, and virtual reality.

### **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**

Students will be provided a detailed course schedule during orientation on the program. Please be aware that topics and excursions may vary to take advantage of any emerging events, to accommodate changes in our lecturers' availability, and to respect any changes that would affect student safety. Students will be notified if this occurs.

### **Module 1: Globalization, 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.” Besides neoliberal globalization, this module addresses the limits of neoliberalism, alternative financial sectors and case studies of solidarity economies such as complementary and alternative currencies.

#### Session 1: Neoliberal Globalization and Global Governance

This session focuses on the globalization debate in international political economy and discusses four main aspects of the world economy today: internationalization, technological revolution, liberalization and ‘de-territorialization’. The session addresses the financial aspects of the global economy such as the spread of global currencies, digital cash, global credit, and debit cards.

#### *Required reading:*

Baylis, J., Smith, S., & Owens, P. (2014). *The Globalization of World Politics: an Introduction to International Relations*. Oxford University Press, 15-31.

#### *Recommended Reading:*

Davies, W., Mills, T. (2014). *Neoliberalism and the end of politics*. Retrieved from: [http://www.newleftproject.org/index.php/site/article\\_comments/neoliberalism\\_and\\_the\\_end\\_of\\_politics](http://www.newleftproject.org/index.php/site/article_comments/neoliberalism_and_the_end_of_politics)

#### Session 2: Introduction to Alternative Financial Services and Intermediation

This session introduces the core concepts of alternative financial services such as financial intermediation, solidarity economies, Islamic finance and technology based financial systems. The session discusses the 2008 financial crash and the limits of neoliberalism.

*Required reading:*

Allen, F., Qian, J., Carletti, E., & Valenzuela, P. (2012). Financial intermediation, markets, and alternative financial sectors. Retrieved from: <http://fic.wharton.upenn.edu/fic/papers/12/12-05.pdf>

*Recommended reading:*

Serrano, M. R., & Xhafa, E. (2011). *The Quest for Alternatives beyond (Neoliberal) Capitalism* (No. 14). Global Labour University Working Paper. Retrieved from: [http://www.global-labour-university.org/fileadmin/GLU\\_Working\\_Papers/GLU\\_WP\\_No.14.pdf](http://www.global-labour-university.org/fileadmin/GLU_Working_Papers/GLU_WP_No.14.pdf)

Session 3: “Leman Monnaie and Alternative Financial Systems”

The session retraces the history of regional currencies and introduces the concept of alternative/ complementary currencies. This session discusses alternative/ complementary currencies such as leisure money, cryptocurrency (bitcoin), local exchange trading system (LETS), time bank, pledged money, and mutual credit clearing system.

*Required reading:*

David Boyle, (2011) “More than Money: Platforms for exchange and reciprocity in public services“, Nesta. Retrieved from: [www.nesta.org.uk/sites/default/files/more\\_than\\_money.pdf](http://www.nesta.org.uk/sites/default/files/more_than_money.pdf)

*Recommended readings:*

Kennedy, M., Lietaer, B. A., & Rogers, J. (2012). *People money: The promise of regional currencies*. Triarchy Press Limited. Retrieved from: <http://fr.slideshare.net/LocalMoney/bernard-lietaer-people-money-the-promise-of-regional-currencies-full-362p-book-with-margrit-kennedy-and-john-rogers>

Blanc, J. (2006). Silvio Gesell's Theory and Accelerated Money Experiments. Retrieved from: <http://monnaie-leman.org/wp-content/uploads/2015/10/BlancAccelerated.pdf>

Greco, T. (2013). Taking moneyless exchange to scale: measuring and maintaining the health of a credit clearing system. *International Journal of Community Currency Research*, 17, 19-25. Retrieved from: <http://monnaie-leman.org/wp-content/uploads/2015/10/ijccr-2013-greco.pdf>

**Module 2: Sustainable Finance, Development and Environment**

Environment-related risks are increasingly featured in financial evaluation and businesses are becoming more cautious about the impacts of investment on natural capital and biodiversity loss. Changes in policy and technology have had material impacts on financial investments, as is the case with carbon risk management. Also, the changing regulatory environment is impacting banks' capacity to provide long-term loans. This module addresses the intricate relationship between finance and the environment. In particular, it looks at the workings of divestment, stranded assets, and the changing regulatory environment in Europe.

Session 1: Finance and Ethics: What is Sustainable Finance?

The objective of this session is to give an introduction to the notion of what is often described as “ethical, sustainable, social, alternative, development, or solidarity” banking

and financing. The lecture explores the principles of SRI, ESG issues, impact investing, charity, and philanthropy.

*Required Reading:*

US SIF Foundation. (2013). *The Impact of Sustainable and Reasonable Investment*.

Retrieved from:

[http://www.ussif.org/files/Publications/USSIF\\_ImpactofSRI\\_FINAL.pdf](http://www.ussif.org/files/Publications/USSIF_ImpactofSRI_FINAL.pdf), 15-47.

Session 2: Environmental Policies and Natural Capital

This session provides an overview of the impact the divestment movement is having on financial investment. The focus is on the changing regulatory environment in Europe and its implications on banking and financial responsibility.

*Required reading:*

Climate Bonds Initiative (2017). *The Role of Exchanges in Accelerating the Growth of the Green Bond Market*. 2. Retrieved from:

[https://www.climatebonds.net/files/files/March17\\_CBI\\_Briefing\\_Stock\\_Exchange\\_s.pdf](https://www.climatebonds.net/files/files/March17_CBI_Briefing_Stock_Exchange_s.pdf)

Session 3: Inclusive Growth and Impact Investment

This session focuses on global economy, environment, and sustainable development. It discusses issues such as carbon markets, sustainable business, and eco-innovation.

*Required reading:*

World Economic Forum (2017). *The Inclusive Growth and Development Report* (Insight Report). Geneva, 1-46. Retrieved from:

[http://www3.weforum.org/docs/WEF\\_Forum\\_IncGrwth\\_2017.pdf](http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf)

*Recommended reading:*

“Impact Investing: Coming of Age” (2017). *The Economist*, London (January 7, 2017), 54.

**Module 3: Microfinance and Intermediation**

This module focuses on microfinance as an important channel of intermediation between the small businesses and households lacking access to banking services, and investors. The module addresses a series of case studies related to microfinance in Africa, Indochina, and Islamic microfinance as an alternative form of intermediation.

Session 1: Microfinance NGOs and Intermediation

This session provides an overview of the role of microfinance institutions and NGOs in the global south as well the impact of microcredit on regional development.

*Required reading:*

Ledgerwood, J., Gibson, A. (2013). “The Evolving Financial Landscape” *The New Microfinance Handbook. A Financial Market System Perspective*. Joanna

Ledgerwood (ed.), The World Bank: Washington, D.C., 15-48. Retrieved from:

<https://openknowledge.worldbank.org/bitstream/handle/10986/12272/9780821389270.pdf?sequence=6&isAllowed=y>

Session 2: Microfinance in Africa

This session focuses on the empowering small businesses and households through financial inclusion in Africa by allowing the access to financial services, in particular for the poor, to obtain loans.

*Required reading:*

United Nations. (2013). Microfinance in Africa. Overview and Suggestions for Action by Stakeholders. United Nations: Geneva, 14-36. Retrieved from:  
<http://www.un.org/en/africa/osaa/pdf/pubs/2013microfinanceinafrica.pdf>

Session 3: Microfinance in Vietnam and Switzerland: Connecting Eco-Innovation and Sustainable Finance

This session examines technical cooperation between Switzerland and Vietnam in the field of agriculture. It explores innovative industrial solutions and a sustainable finance approach applied in the rice sector.

*Required reading:*

Szilagyi, A., Churican, A., Verniquet, A. and Rochat, D. (2015). "Eco-Innovation, A Business Approach Towards Sustainable Processes, Products and Services", *The Environment and Industry*, Proceedings, Book Volume X., 13. Retrieved from: <http://dspace.incdecoind.ro/bitstream/123456789/327/1/2-ECO-INNOVATION-A-BUSINESS-APPROACH-TOWARDS-SUSTAINABLE.pdf>

*Recommended reading:*

Demont, M., & Rutsaert, P. (2017). Restructuring the Vietnamese Rice Sector: Towards Increasing Sustainability. *Sustainability*, 9(2), 325. Retrieved from:  
<http://www.mdpi.com/2071-1050/9/2/325/htm>

**Module 4: Islamic Banking and Finance**

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 students learn on early day transactions in the era of the Prophet, as well as the modern-day experiments in Islamic finance.

Session 1: Islamic Finance: A General Overview

This session introduces core concepts of Islamic banking and finance. The students learn about corporate governance in Islamic financial institutions, asset and bonds, fund and risk management, and insurances.

*Required reading:*

Hassan, M. K., Kayed, R. N., & Oseni, U. A. (2013). *Introduction to Islamic Banking and Finance: Principles and Practice*. Pearson Education Limited, 2-39.

Session 2: Principles of Islamic Banking and Investment

This session discusses Islamic law and financial transactions based on Sharia, and explains what is forbidden in Islamic commercial transactions. The module includes an exercise of calculating loans in Islamic banks.

*Required reading:*

Hassan, M. K., Kayed, R. N., & Oseni, U. A. (2013). *Introduction to Islamic Banking and Finance: Principles and Practice*. Pearson Education Limited, 40-75.

### Session 3: Islamic Microfinance

This session examines how Islamic financial intermediaries provide a microcredit to the entrepreneurial poor. It investigates Islamic microfinance products and compares the conventional with Islamic microfinance institutions. The session gives an overview of the main Islamic microfinance institutions operating on the global scale.

#### *Required reading:*

Hassan, M. K., Kayed, R. N., & Oseni, U. A. (2013). *Introduction to Islamic Banking and Finance: Principles and Practice*. Pearson Education Limited, 326-365.

### Session 4: Calculation of Loans in Conventional and Islamic Financial Institutions

In this session students will learn to calculate loans in Islamic financial institutions by using Excel and compare them to calculation of loans in conventional banks. This is a practical session which consist of series of exercises and will help them to perform in ISPF / Internship in Finance assignments.

#### *Required reading:*

Hassan, M. K., Kayed, R.N., Oseni, U.A. (2013). "Financial Instruments of Islamic Banking" *Introduction to Islamic Banking and Finance*. Edinburgh: Pearson Education, 76-98.

#### *Recommended reading:*

Brown, R., Zima, P. (2011). "Amortization and Sinking Funds", *Mathematics of Finance*. McGraw-Hill Education, 124-152.

## **Module 5: Future of Banking, Finance, and Social Responsibility**

This module offers an overview of the role of finance in the era of the Internet driven information society. Internet governance and online financial services (e-banking, e-commerce, e-money, etc.) and in the very near future virtual reality. These concepts fundamentally change the way financial services are performed in a traditional, one-dimensional, off-line setting. By focusing on the future of banking and finance in a digital era, this module deals with alternative futures, new business trends and emerging opportunities.

### Session 1: Internet Governance Actors and Finance

This session explains how the Internet is currently governed. It discusses the role of actors such as governments, the business sector, civil society, international organizations, the technical community, and the ICANN.

#### *Required reading:*

Kurbalija, J. (2014). *An Introduction to the Internet Governance*. Geneva: Diplo Foundation, Geneva, (6<sup>th</sup> edition), 177-196. Retrieved from:  
[https://www.diplomacy.edu/sites/default/files/An%20Introduction%20to%20IG\\_6th%20edition.pdf](https://www.diplomacy.edu/sites/default/files/An%20Introduction%20to%20IG_6th%20edition.pdf)

### Session 2: Internet Governance and the Future of E-Banking

This session focuses on internet governance in the age of the information society. It discusses economic and financial issues such as mobile commerce, electronic funds transfer, online marketing, transaction processing, electronic data exchange and

automated data collection systems. The session concludes on the future of finance in an internet driven information society.

*Required reading:*

Kurbalija, J. (2014). *An Introduction to the Internet Governance*. Geneva: Diplo Foundation, Geneva, (6<sup>th</sup> edition), 117-139. Retrieved from:  
[https://www.diplomacy.edu/sites/default/files/An%20Introduction%20to%20IG\\_6th%20edition.pdf](https://www.diplomacy.edu/sites/default/files/An%20Introduction%20to%20IG_6th%20edition.pdf)

**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 and Activities:

Final Exam / Test, Thematic Essay and Participation constitute the seminar requirements. In all exercises, students are asked to reflect analytically and to integrate lectures, readings, and briefings.

Final Exam / Test (50%):

The final exam is a combined multiple-choice test (MCQ) with open questions on the alternative financial systems of intermediation. Each MCQ has four possible answers where only one answer is correct. When responding to open questions, the answer should be brief, concise and precise. The scope of final examination is to assess the factual knowledge students acquired during the seminar. This is an in-class closed-book and fact-based written exam. All topics discussed in class can be part of the final exam.

Time: Students will have 90 min to complete the final exam / test.

Thematic Essay (40%):

The objective of the in-class thematic essay is to assess the analytical skills and knowledge students obtained during the seminar on core notions and concepts, actors, goals and effects of alternative financial systems and intermediation. This is an in-class closed-book written exam. The thematic essay includes an analytical assessment on an issue related to alternative financial systems and intermediation. The essay should express a social responsibility perspective on banking and finance. Possible topics: Neoliberal globalization, global governance and its critiques; Alternative financial sectors; Solidarity economies; Sustainable finance, development and environment; Microfinance and NGOs; Microcredit and development; Islamic banking; Information society, internet governance, and finance in the digital era. The thematic essay should clearly articulate the SIT concern on ethics and social responsibility and should respond to the following requirements: Introduction and context review showing student familiarity with the topic; Facts and real-world examples supporting student arguments are logical and well structured; Reference to ethics and social responsibility in the field of the topic is clearly stated; Conclusion summarizes the main points discussed including a broader assessment of the essay question.

Time: Students will have 90 min to complete the thematic essay.

Participation (10%):

Attendance, punctuality, active involvement in discussions, and completion of reading assignments are mandatory.

Assessment:

|                   |     |
|-------------------|-----|
| Final Exam / Test | 50% |
| Thematic Essay    | 40% |
| Participation     | 10% |

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.

**Academic Policies:** SIT prides itself on providing students with an experientially based program; we hold ourselves, and our students, to the highest of academic standards. Students are asked to refer to the **SIT Study Abroad Handbook** for policies on academic integrity, ethics, academic warning and probation, diversity and disability, sexual harassment and the academic appeals process.

**Disability Services:** Students with disabilities are encouraged to contact Disability Services at [disabilityservices@sit.edu](mailto:disabilityservices@sit.edu) for information and support in facilitating an accessible educational experience. Additional information regarding SIT Disability Services, including a link to the online request form, can be found on the Disability Services website at <http://studyabroad.sit.edu/disabilityservices>.