

Report on Bachelor/Master Thesis

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Title of the thesis:	Investment opportunities in microfinance and their attractiveness for global market players

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

The thesis focuses on an important area of development economics. Although a potential social role of microcredit is acknowledged, the Barbora Svárovská focuses on investments in microfinance organizations as a new instrument for institutions and individuals in developed countries. The aim of this study is to analyze risk and return characteristics of existing microfinance investment funds (MIF), a dynamic and increasingly important part of the global microfinance movement. The key question of the thesis is whether the MIF are more risky in terms of total volatility, how correlated their portfolio risk is with market indices, and what is their relative return. Barbora uses monthly data of eleven MIFs for the period of January 2006 to March 2009. She finds that total risk of MIFs is low, the correlation with global market risks is low and returns comparable to other other returns. In sum, these results suggest that investing in microfinance provides interesting risk-adjusted returns.

I like this thesis for several reasons. Barbora formulates a clear research question. She masters much of the literature on the topic. Although it is a bachelor thesis, large part consists of an independent empirical analysis. It uses multiple indices as proxies for market risk to observe robustness of the results. She uses multiple measures risk and returns and correctly interprets its economic meaning. I also like the fact that the analysis uses monthly data which is particularly nice given the speed of changes we observe in recent years. In sum, the analysis is quite convincing and in line with previous literature that used different data sets. An interesting finding is the structural break in Jensen's alpha, when before the crises the premium of investing to MFIs funds was negative, whereas it turned positive after the break. In other words, investing in MFIs became relatively more profitable during the crisis time.

Here are a few comments which might be relevant for the defense discussion or could be taken as suggestions for a future work:

- (1) It is encouraging to see that the author does not get trapped by interesting results and is capable of assessing its limitations. It is indeed an open question whether better performance of MFIs during crises is a stable pattern or if it only reflects a time lag in a slump in their performance. I would suggest discussing during the defense author's personal opinion about what is the more likely scenario and why.
- (2) Barbora also correctly identifies the limitations of her sample selection: the results are not representative for all MIFs, but they are quite relevant from perspective of entities interested in this type of investment opportunity. She might want to have a look at a recent paper Morduch and Bauchet (2009) on selective reporting of microfinance institutions
- (3) It might be interesting to consider the data set as a panel and estimate coefficients for all eleven MIFs together with fixed effects for each MIF, rather than run the regressions separately for each MIF. In any case this is a nice empirical work for a bachelor student.

I recommend „A“ (1, výborně) for this thesis. The commission may also want to consider awarding a distinction. I would strongly encourage the Barbora to work further on this topic and seek some kind of publication of the work. At least, she should submit the thesis in the competition organized by Rozvojovka for the award for the best bachelor thesis on a development topic. She may want to consider to present these results to the Czech NGO „Mikrofinance“.

