

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Karel Pfeffer
Advisor:	Karel Janda
Title of the thesis:	Analysis of publicly listed microfinance equity diversification potential and possible mission drift

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

The diploma thesis of Karel Pfeffer is dealing with an interesting and important subject of publicly traded microfinance institutions. This is a very good topic for a diploma thesis because it is a new topic without extensive literature coverage being provided up to now. Therefore there is a good chance of new contribution to scholarly research offered by this topic. According to the author of this diploma thesis there exist only 3 papers dealing with the topic of microfinance diversification potential for publicly trade microfinance institution and in general the supply side (investing into microfinance) literature of microfinance is not much developed . These three papers identified in the evaluated diploma thesis are:

O'Donohoe et al. (2009) [the list of references in this Diploma thesis provides only O'Donohoe et al. (2009) heading without actually providing any reference] ,

Monroy and Huerga (2012) [the list of references in this Diploma thesis provides only incomplete entry „Monroy and Huerga 2012, International For-Profit Investments in Microfinance Institutions Equity“]

and Brière and Szafarz (2015) [despite my repeated verbal and written reminders to the student, the list of references in this Diploma thesis provides only earlier working paper versions of this article, not including this 2015 World Development journal article].

This diploma thesis was designed as 2 research papers connected by common topic of microfinance and common focus on highly developed publicly traded microfinance institutions. I consider this idea as a very good one. The general structure of the thesis is therefore based on this idea (the structure, where both principal chapters of the thesis are essentially self-contained articles). Actually this idea of self-contained chapters/articles is not 100 percent implemented: The Introduction, Conclusion and Discussion chapters are common to both articles. I think that to keep the original idea with chapter specific introduction and conclusion parts (or with common Introduction and Conclusion clearly formally divided into two sections corresponding to relevant chapter/articles) would be better. But anyway, the division of the diploma thesis into those two self-contained articles is one of strictly positive features of this diploma thesis.

The starting point of the evaluated diploma thesis was to take Brière and Szafarz (2015) article and to split it into two articles. The first one was in the style of Janda and Svarovska (2010) (used as a source and reference in the evaluated diploma thesis) simple CAPM paper dealing with possible financial benefits of including microfinance assets into an investment portfolio. The second one was dealing with social performance of microfinance, in the style of Janda and Turbat (2013) (not mentioned in the evaluated diploma thesis) or Janda, Tran and Zetek (2015a, b) (also not mentioned in the evaluated diploma thesis), however using much simpler analytical approach.

The chapter 1, Introduction, is the weakest part of the diploma thesis. This part is not well written, especially subsection 1.2 Historical context is largely redundant, not really useful for the thesis. It looks more like artificial effort to reach required size of the diploma thesis (according to FSV rules the diploma thesis has to have at least 90 thousand characters including spaces, which corresponds to 50 pages, not including abstract and appendices). In the case of this topic it would be relatively easy to reach required minimal size limit by including some informative descriptive chapter dealing for example with comparison of 5 considered publicly traded microfinance institutions (MFI) with other MIF – both with average/median MIF and with comparable large/well developed MFI both in the profit oriented (more commercial) and non-profit oriented (more donor, or social investment oriented) ones. Such a descriptive comparison chapter could provide a valuable contribution to the literate and it is actually one possible topic to discuss during the thesis defense – putting 5 considered MFI into context/comparisons with other comparable MFI which are not publicly traded.

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While I criticize the subsection 1.2 Historical context, I have to admit that the Introduction section contains a lot of paragraphs which are well placed and which could actually serve as parts of introduction for each one of the two substantive chapters. As I already mentioned, these two substantive chapters do not really contain the introductions of their own.

Chapter 2: Part I – Publicly listed MFIs equity performance

is essentially combination of ideas contained in Brière and Szafarz (2015) and in Janda and Svarovska (2010) [in the text of diploma thesis alternatively referenced as Janda and Svarovska (2010, Janda and Svarovska (2011), Svarovska and Janda (2011)] and Janda, Rausser and Svarovska (2014) [in the text of diploma thesis referenced sometimes as Janda and Rausser (2013)]. Brière and Szafarz (2015) provide an idea of focusing on publicly traded MFI. In the evaluated thesis the set of considered companies (only 5 of them) is smaller than somehow wider defined set (13 companies) considered by Brière and Szafarz (2015). Janda and Svarovska (2010) provide inspiration for technical approach being used in the evaluated diploma thesis.

As far as the technical level of the analysis is concerned, this chapter 2 of the evaluated diploma thesis is on the level of bachelor thesis of Barbora Svarovska (2009), not even using the analytical improvements contained in Barbora Svarovska diploma thesis (2011) and in a journal article Janda, Rausser, Svarovska (2014). This chapter is not as well written and technically sophisticated as Brière and Szafarz (2015) and it also does not reach the quality of comparable diploma thesis Brandt and Nacksten (2015). The diploma thesis Brandt and Nacksten (2015) (it looks like that at Stockholm School of Economics it is possible to write a diploma thesis as a joint paper) is a very well written and executed replication of Janda, Rausser, Svarovska (2014), with appropriate extensions. Also the evaluated diploma thesis does not reach the level of originality of bachelor thesis of Barbora Svarovska (2009), since at 2008/2009 the idea of investigating investment side of microfinance investment vehicles was quite an original idea and it was a brand new research topic at that time.

Chapter 3: Part II - Social performance,

is the second substantive chapter of the evaluated diploma thesis. While it is inspired by a part of Brière and Szafarz (2015) in the sense that the analysis is based on 5 publicly traded MFI, it is a replication of the Bryant University student Segill (2013) Honors Projects in Finance. (It was actually a challenge for me to find this source paper since in the evaluated thesis misspelled reference as Sergill (2013) is often used and in the List of references the incomplete reference was by mistake hidden inside the reference to O'Donohoe). The idea and content of this chapter is very simple. For 5 publicly traded MFI the difference in means of several selected variables before and after IPO is tested and commented upon.

While I was reading the drafts of the evaluated diploma thesis, I expected that the list of simple Wilcoxon Rank Sum tests comparing two means will be just a starting point and that the analysis will substantially advance over this simple mechanic and repetitive testing of equality of means. The whole discussion in this chapter would benefit with including reference to Janda and Zetek (2015), who provide relatively recent review of microfinance literature with emphasize on mission drift related issues. This mission drift theme is further elaborated in Janda, Tran and Zetek (2015a, b). The literature review in this chapter is weak, it should be more elaborated a deepened – for the appropriate literature see already mentioned Janda and Zetek (2015) and Janda, Tran and Zetek (2015a, b) plus more recent literature published during 2015 and 2016.

Data section 3.3 in this chapter is not clear enough and it is even somehow misleading. While reading this data section, it looks like wide sample of MFI will be analyzed, maybe comparing companies with IPO to those without IPO. However only 5 companies with IPO are considered in the empirical part of the chapter. The information about time span of data is missing (from when to when, and when the break point (IPO) occurred for each company). This data section does not really provide the information about data used for testing those 5 companies with IPO.

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Also the wording of the hypotheses in this chapter is somehow more ambitious than what is actually tested in the empirical part. Mission drift, the main theme of this chapter, is usually considered in the literature as a cross sectional feature: comparing different MFI. However when looking at the 5 considered companies, my intuition is that those companies did not substantially changed by the date of IPO. My intuition is that for at least some significant length of time before the actual IPO the company was following the same business model as after IPO, using the same mode of operations as after IPO. Actually I consider that the wording of research hypothesis as stated in the Segill (2013) paper is much more clear than the one used in the evaluated diploma thesis.

"When a Microfinance Institution becomes publicly traded, we expect to see a mission drift." Segill (2013, p. 21). What the evaluated diploma thesis investigates is exactly what Segill (2013, p. 21) says. Given my above presented intuition, it is no surprise to me that the evaluated diploma thesis confirms my intuition – it says that nothing much changes by IPO. While there is nothing wrong in investigating the hypothesis whether IPO bring any change in the particular company, I would consider much more interesting and relevant question the question whether these 5 publicly traded companies are different (experience mission drift) as compared to other comparable MFI.

Presenting a long list of individual results of Wilcoxon Rank Sum tests is not very convincing test of mission drift occurrence from the statistical point of view. Some formal integration of these individual tests for each particular potential dimension of mission drift would be highly desirable.

In general I consider Chapter 3 weaker than chapter 2. Chapter 3 is more mechanical than chapter 2 and it is less elaborated. Also the obtained rejection of the main hypothesis "When a Microfinance Institution becomes publicly traded, we expect to see a mission drift." (as taken from Segill (2013)) seems to me kind of obvious, not interesting enough by itself.

Chapters 3 and 4: Conclusion and Discussion.

Conclusion is called conclusion because it concludes (it is the last part of the paper). Therefore the chapter Discussion should be placed before the chapter Conclusion.

Work with literature and references:

List of references is done in very reckless way. Some literature and corrections are missing despite my explicit verbal and written comment on the literature during my reading the various drafts of the diploma thesis. Many references are very incomplete. Out of many mistakes and typos in the List of References I may mention the most important key sources by Segill and Brière +Szafarz. Segill was hidden in the list of references inside the different reference and written with typo in about half of citations in the text of the thesis. Brière +Szafarz are once ordered under B, once under M as Marie Brière. There are wrong references to my own articles (which I explicitly pointed out to the student in my e-mail on December 24, 2016) and there is missing the most important article reference to Brière and Szafarz (2015) (which I explicitly mentioned not only in my December 24, 2016 e-mail, but also in my earlier communications since the beginning of this project). The reckless way of managing the List of References goes also to the citations in the text of the evaluated diploma thesis (see my comments about incorrect or missing references throughout this diploma thesis evaluation report). I did not specially check for citations in the text being linked to the List of Reference, but I noticed that at least reference Rozas (2014) is not in the List of References.

Minor comments:

In the names and titles consistently only first word is capitalized (I prefer to capitalize all words since it better identifies the name/title in the text). On the other hand some words are capitalized without a sufficient reason (like sometime writing Microfinance or something like that).

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The choice of 23 banks for Mainstream bank index should be better explained. Especially given that the author himself talks about this choice possibly leading to some problems in the later part of the chapter 2.

Table 4: If start and end dates are the same for all 5 banks, they should be given as a note for the whole table, not as repeated entries in the table.

Pages 22-24: Figures 1-5 are missing good description of vertical axes and used symbols. Trade volume, Open, High, Low, Close notes are not clearly linked to the picture. The figures look like coming from some financial analytical software and they are not sufficiently clearly labeled, explained.

Pages 39-40: Because of cultural, institutional, customs etc. reasons the position of women is different in different countries. This country differentiation is missing in the diploma thesis. And the used approach of analyzing 5 particular MFI is not suitable for capturing these country effects.

Page 39: How is the data unbalanced? Does it matter? No statistical technique assuming balanced data is used here.

Tables 7-13 What are the numbers in brackets? Also the sentence "The Wilcoxon Rank sum test presents *** at 5% confidence level" under each one of these tables is not clear enough. Why *** are associated with 5% confidence level (this should be significance level – the same mistake is also done in the chapter 2 or elsewhere in the text)? In the regressions *** are usually associated with 1% significance level.

Page 48 Summary: I do not understand this sentence: "However, all variables are indicating and hence they have to be considered in comparison to market and each other."

I do not provide here any corrections of typos or stylistics. I provided these corrections to the student after I received the final version of the diploma thesis (after being told about the thesis being deposited by automated e-mail from SIS). Also the page numbers I use in this report refer to the word version of the submitted diploma thesis with my corrections included, so they may be different from the page numbers in the submitted diploma thesis before my corrections.

This evaluated diploma thesis project started in October 2015, however not much of actual writing was done during the first year of this project. The actual empirical work and finishing of this thesis was done as a last minute work during the last 2 weeks in December 2016 and the first week in January 2017. This somehow explains a lot of typos, bad management of references and a somehow unfinished character of both substantive chapters.

References (partly exactly copied from the evaluated thesis)

Madeleine Brandt and Caroline Nacksten, (2015), On the performance of microfinance investment funds - A quantitative study of the financial performance of 83 funds from 1998 to 2015, Stockholm school of economics department of Economics.

Brière M. and A. Szafarz, "Investment in Microfinance Equity: Risk, Return and Diversification Benefits", *World Development*, 67, March 2015, 110-125.

O'Donohoe, Nick and de Mariz, Frederic and Littlefield, Elizabeth and Reille, Xavier and Kneiding, Christoph, *Shedding Light on Microfinance Equity Valuation: Past and Present* (February 1, 2009). Available at SSRN: <https://ssrn.com/abstract=2619149> or <http://dx.doi.org/10.2139/ssrn.2619149>

Janda, K., Rausser, G., Svárovská, B. (2014) Can investment in microfinance funds improve risk-return characteristics of a portfolio? *Technological and Economic Development of Economy*. 20(4). pp. 673-695. DOI: 10.3846/20294913.2014.869514

Janda, K. & Svárovská, B. (2010). Investing into Microfinance. *Journal of Business Economics and Management*, 11 (3): 483–510.

Karel Janda & Batbayar Turbat, 2013. "Determinants of the financial performance of microfinance institutions in Central Asia," *Post-Communist Economies*, Taylor & Francis Journals, vol. 25(4), pages 557-568, December.

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JANDA, Karel, TRAN, Van Quang, ZETEK, Pavel. Vliv externího financování na mikrofinanční rozvoj – makropohled. Ekonomický časopis, 2015a, roč. 63, č. 2, s. 115–132. ISSN 0013-3035.

Karel Janda & Van Quang Tran & Pavel Zetek, 2015b. "Faktory ovlivňující zapojení žen v mikrofinancích [The Factors Influencing the Participation of Women in Microfinance]." Politická ekonomie, University of Economics, Prague, vol. 2015(3), pages 363-381.

Karel Janda & Pavel Zetek, 2015. "Mikrofinanční revoluce: kontroverze a výzvy [Microfinance Revolution: Controversies and Challenges]." Politická ekonomie, University of Economics, Prague, vol. 2015(1), pages 108-130.

Rodríguez Monroy, Carlos y Huerga, Ángel (2012). International for-profit investments in microfinance institutions equity. En: "6th International Conference on Industrial Engineering and Industrial Management. XVI Congreso de Ingeniería de Organización", 18/07/2012 - 20/07/2012, Vigo, Spain, pp. 38-51.

Segill, Sarah, "Initial Public Offerings in the Microfinance Industry: Does a Mission Drift Occur?" (2013). Honors Projects in Finance. Paper 27. http://digitalcommons.bryant.edu/honors_finance/27

I recommend the thesis for defense.

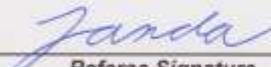
In the case of successful defense, I recommend the grade „good“ (grade 2), however it is a very weak „good“ in this case.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Literature (max. 20 points)	10
Methods (max. 30 points)	20
Contribution (max. 30 points)	20
Manuscript Form (max. 20 points)	11
TOTAL POINTS (max. 100 points)	61
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: Karel Janda

DATE OF EVALUATION: January 21, 2017


Referee Signature

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EXPLANATION OF CATEGORIES AND SCALE:

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong Average Weak
20 10 0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong Average Weak
30 15 0

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong Average Weak
30 15 0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě