

# Advisor's Report on Dissertation Thesis

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Title of the Thesis:	Three Essays on Asymmetric Information in SME Finance and Microfinance
Type of Defense:	<b>DEFENSE</b>
Date of Pre-Defense	March 16, 2022

Address the following questions in your report, please:

- a) Can you recognize an original contribution of the author?
- b) Is the thesis based on relevant references?
- c) Is the thesis defensible at your home institution or another respected institution where you gave lectures?
- d) Do the results of the thesis allow their publication in a respected economic journal?
- e) Are there any additional major comments on what should be improved?
- f) What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defensible in this form.

*(Note: The report should be at least 2 pages long.)*

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*Contribution.* There are three major contributions of Flora's work, in my judgement: (1) Credit appraisal may be considered one of the oldest financial tasks in finance but it continues to be today a major challenge even for the most sophisticated bankers and analysts. This is particularly the case of credit sought by SMEs for whom the access to credit is the major constraint of growth of SMEs. What makes the constraint particularly serious is the poor access of SMEs to formal bank credit in most countries, especially in relatively less developed countries, as shown in Flora first paper. Moreover, Flora's work provides an answer to this enormous challenge – better utilization of financial markets without financial intermediaries. What makes this aspect of Flora's work particularly important and interesting is her focus on China, which has one of the most developed markets of this kind, and her work on China will, I believe, be followed with interest by other researchers in other countries as well as policy makers in the World Bank and other donor agencies as well as by national regulators.

(2) The second major contribution is her approach to credit appraisal. SMEs in developing countries usually lack enough financial wherewithal and are, as a result, “non-bankable”. Flora proposes to take an advantage of modern IT technologies, new data systems and developments in social sciences, especially in economic theory and in psychology to create

additional sets of soft information for credit appraisal in addition to financial (hard) information. Drawing on the theoretical work of Akerloff, Spence, Stiglitz, Kranton and others, she develops a model of credit appraisal which she successfully tests empirically in one of her papers. She finds that soft – borrowers' identity-related - factors can be useful in credit allocation especially in countries and markets where SMEs and individual borrowers are unable to provide reliable financial data about their creditworthiness.

(3) The third contribution of Flora is her paper on adverse selection. In her third essay, she shows that successful credit allocation is not necessarily the most efficient one. She shows that the screening mechanism based on an extensive use of soft information may sometimes lead to misspecification of the lenders' screening mechanism in P2P lending and provides another interesting empirical evidence of adverse selection, this time in P2P markets of China.

*References.* Flora has worked on her dissertation for several years, as it is well known. Her progress has been adversely affected by the Covid situation, which even forced her to interrupt her studies and return to China. I have insisted throughout the whole period that she continuously followed the new literature to ensure that she follows the right course of research. She has done so and will be prepared to provide the updated list of references if necessary.

*Respectability and the Quality of her Research.* My personal and direct experience with PhD dissertations is from universities at Cambridge, Oxford, British Columbia, Sussex and Grenoble. I have taught and/or carried out research and/or acted as an external examiner at all those institutions. I have lectured at Universities of Tokyo, St. Petersburg, Columbia, LSE, Pretoria, Washington, Dar-es-Salaam, Nairobi, Seoul, Kuala Lumpur, Vienna, Barcelona, San Sebastian, Buckingham, Manchester, Hull, and others. I can confirm that the quality of Flora's dissertation is highly respectable in my judgement.

*Publishable quality.* All three papers have already been published in highly respectable journals. Two of the publications are in journals with a solid IF and the third paper on "adverse selection" is published in a new journal, which I believe will soon receive a very respectable IF quality.

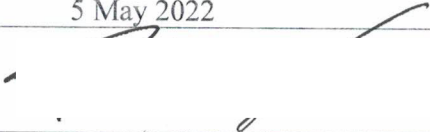
I should also point out that her work - as recent as it is - has already attracted attention of experts in the field and publishers. She has already received an invitation by a publisher to publish all her papers as a separate book. She is obviously pleased to receive the offer and to see so much interest in her work and so am I.

*Improvements.* Flora is a young lady from mainland China. Even though her conversational English is very good, and she can follow English language literature equally well, her writing in English is not perfect. I have, therefore, arranged for two of her papers to be language edited and feel comfortable about the language quality of the text. The third paper on adverse selection was also edited but by an editor whom she chose herself. The editing could have been improved – the successful publication of the paper notwithstanding!

*Responses of Flora to comments of examiners and the committee.* Finally, Flora has made a considerable effort to respond to all comments made by her examiners and other members of the committee of her “Mala and Velka Obhajoba”. She provides a detailed guidance of her responses and changes in a separate document to the members of the committee. Following the recommendations of the committee, the changes related to Essay no. 1 were incorporated directly into the dissertation. She has also made changes in the text of the second and third Essays in response to the relevant questions and comments, and those changes are identified in her guide. Her responses to the remaining comments are provided in a separate document and presented as chapter 4 of her dissertation.

To the best of my knowledge, she has covered the whole ground of the comments and responded fully to all questions of the members of the committee. She has even taken steps to provide additional empirical evidence in support of her arguments in the dissertation and carried out additional econometric work and data analysis. She has also taken steps to improve the clarity of languages and in the presentation of data and her findings as requested by professors Brada and Kutan. She has devoted a great deal of time and space in responding to comments of dr. Pěcena whose insights from and experience in banking sector and its practices in credit appraisal are very valuable and much appreciated. Overall, and as far as I am concerned, Flora’s responses are fully satisfactory.

*Overall assessment.* In my judgement, the quality of the dissertation is very good, and she deserves my full approval and satisfaction of her work. She chose to address a challenging research task but one that is extremely interesting as a research topic and important and useful for policy making. Her dedication to her task and goal is exemplary, her commitment and discipline have been also impressive. Her data exploration and manipulation are excellent, and her econometrics is, I believe, also of high standard for this kind of empirical work. She is highly responsible and goal oriented. She has worked incredibly hard and under very difficult conditions (Covid, unfamiliarity with the Czech education and culture, and she was alone – i.e., far from her family whom I could obviously not replace). I can recommend without hesitation the thesis for defense.

Date:	5 May 2022
Advisor’s Signature	
Advisor’s Affiliation	dr. Ing. Zdeněk Drábek B.A. D.Phil. (IES)