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A microcredit evaluation model for non-bank financial institutions

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Abstract

Purpose

The paper aims to develop a microcredit evaluation model (MEM) which could serve as a useful tool for banks and NBFIs when SMEs' economic and financial risks are evaluated.

Design/methodology/approach

Based on the literature review, a set of 17 qualitative and quantitative prudential indicators is selected. Further, a calculation system is developed which relies on the multiple criteria analysis model elaborated by Altman (1968); starting from this, a matrix is developed and a rating system is built. The model is tested among six NBFIs which operate on the Romanian market; three of them are labeled by the Romanian Central Bank as the worst performers, while the other ones are qualified as the best performers. Data are collected from companies' annual reports and also from the Ministry of Finance.

Findings

It proves that the MEM can serve as a useful tool for the national and international NBFIs' risk assessment. It can anticipate NBFIs' success or fall. Furthermore, its results can be guaranteed with a probability of 95 per cent, calculated through the VaR method. Last but not least, it can also be used by the international NBFIs which intend to enter in the Romanian market.

Originality/value

The present paper proposes an original model based on both quantitative and qualitative indicators organized in an integrative equation. The MEM helps both parties involved in the financial grant awarding process – NBFIs are able to better assess requests from SMEs, enabling them to increase the volume of granting, whereas SMEs are able to access money for development projects more easily.

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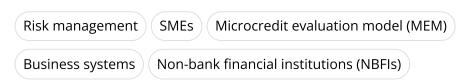Nathanael Ojong, African Review of Economics and Finance, 2017

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Keywords

Risk management   SMEs   Microcredit evaluation model (MEM)

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