

Assessment of Micro Credits in uncertainty environments

The Centro Europeo de Empresas e Innovación de Burgos (CEEI-Burgos) has developed an operational indicator to evaluate the recovery probability of an entrepreneur/SME micro credit in uncertainty environments (No request of collaterals), in order to assess the feasibility of the operation from the MFI (Microfinance Institution) perspective.

This indicator has been named “**Estimated Recovery Probability**”, and includes the following main components:

- Risk Ratio (RR)
- Structural Operational Analysis (SOA)
- Credit Officer Assessment (COA)
- Negative Credit Record (NCR)

$$ERP = CI [\alpha (RR) + \beta (SOA) + \gamma (COA)] - [NCR]$$

The indicator is adjusted by a **Correction Index (CI)** applied over the Risk Ratio (RR), the Structural Operational Analysis (SOA) and the Credit Officer Assessment (COA). These 3 components are also adjusted by a weighting level fixed by the symbols α , β and γ .

The component **Risk Ratio (RR)** is a statistical and financial evaluation of the risk, projected for a specific company for the present and the next 3 years. Different variables are analyzed to calculate this ratio, such as, economic feasibility of the project, indebtedness, equity, liquidity ratios and loan regular payments.

The **Structural Operational Analysis (SOA)** is a general operational analysis of the project's feasibility, but from the entrepreneur/SME point of view. Various characteristics and variables such as the owner's ability and skills, product's concept, knowledge of customer's need, potential customers, cash amount ratio, business plan, break-even point, information network of partners, motivation and recruitment of employees and level of ICT use.

The **Credit Officer Assessment (COA)** is an expert evaluation of the overall business concept. The Credit Officer judge aspects such as the viability of the business, evolution of the sector, the stage of the project development, knowledge and experienced of the entrepreneur/promoter or preset agreements with potential customers.

The last part of our analysis is the **Negative Credit Record (NCR)** which is based on a risk and a credit records assessment that is supported, in this case, by the CIRBE, a document issued by the Spanish Central Bank, to check the credit records of the micro credit claimant.