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MASTER THESIS

Use of CAMEL indicators in the evaluation of microfinance institutions

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ABSTRACT

The standardized valuation system for the financial institution's assessment usually refers to the acronym of CAMEL valuation, which was adopted by the Council for Examination of Financial Institutions on 13 November 1979 and then adopted by the National Credit Union Administration in October 1987. It has been proved to be an effective internal audit tool to evaluate financial and management items, using key co-ins, indicators, policies and institutional procedures.

According to (Sonia & Darcy, pg. 7), CAMEL analyzes and evaluates 21 indicators, for each indicator it is given an individual weight. The ten quantitative traders count for 47% of the valuation, and 13 qualitative indicators include 53% of the remaining valuation. The CAMEL indicators finalized after an evaluation process are composites of a number from one to five, with a weight which is considered as a great measure. These numeric indicators, as appropriate, correspond to alphabetical indications (A, B, C, D and E).

Key words: Microfinance, IMF, CAMEL, CAMEL instrument components, CAMEL evaluation methodology.

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CONCLUSION

Using the CAMEL methodology, I think it is a good opportunity offered at the service of microfinance institutions to measure and evaluate the key indicators of the institution. The use of this methodology by the CAMEL examiners will enable the IMF to have a realistic picture of its current state of affairs, and its prospects in the future. Thus, the MFI management board from the final evaluation of the CAMEL indicators will have the opportunity to improve those indicators that have been presented with a poor performance from the final assessment. The evaluation of MFI performance by CAMEL examiners will also serve for other lower managerial levels, so that this approach will have a general commitment from all employees to achieve better performance in the future. I think the components used to measure asset quality such as delayed portfolio and offsetting credits are among the key components to assess the performance of the IMF. Based on the final results of these indicators we may have assessed the performance of the IMF. So, as in a case where a high standard of these two indicators in relation to the IMF portfolios is necessarily linked by a poor leadership by the employees, either from the low skill level or from the negligence displayed to the compilations of the financial statements to the clients' businesses have brought the institution to such a level.

I think that the use of CAMEL indicators by their examiners and their valuation, besides some of the above-mentioned reasons of benefit, this evaluation also serves the direction of the MFI to transform into a commercial bank in the future, also by a possible valuation of the CAMEL indicators will serve both the public as well as external donors who claim to invest their capital.

I think that the use of this model in the future should be based on the requirements of the Central Banks, in those countries where the IMF operates. The use of this model would reflect a higher level of transparency.