

Bank Provisioning and Microcredit

Working Paper No. 49 AUTHOR OR EDITOR Santiago Caicedo Dairo Estrada

In this paper we develop a banking model to study the traditional credit and the microcredit markets. We suppose a monopolistic traditional bank that specializes in screening potential debtors based on their risk profile and a microcredit bank that focus on monitoring the riskier profile customers. The model is calibrated with Colombian financial data. The results show that when banking provisioning depend only on the screening level, a significant portion of the risky debtors are left out of the financial system and the microcredit bank would not operate in certain market conditions. Nonetheless, when we consider provisions that include monitoring considerations, the microcredit bank would be profitable for the different debtor risk profiles, and its optimal monitoring level is higher in comparison with the one chosen by the traditional bank.

Documento actualizado: 04/03/11 11:20 a.m.