

THE EFFECTIVENESS OF MICROCREDIT APPLICATION ON ALBANIAN POVERTY

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Abstract

Micro-credits in Albania are a segment of the economy which is emergent recently. The main activities in this sector are: alimentary shops, bakeries, wood and metal processing units, constructions, dairies, and boutiques etc. located mainly in developed areas. As a matter of fact the rural area is still living in problematic conditions compared with the other parts of Albania. In Albania many banks and non-financial institutions offer savings and loan opportunities but for different reasons, which will be also analyzed, individuals in need cannot receive them. The government on the other hand provided many facilities but none of the policies was able to minimize at least their conditions. This project aims to investigate the effectiveness of Albanian banks to the micro sectors, by analyzing the statistics which might bring development for these sectors. The situation of the government strategies and the main risks micro credits might cause. The outlines of the research will be based on the evaluation of the economic indicators with the micro credits movements. At the end the research study will present some suggestions regarding the improving of the financing opportunities of micro sector, contributing thus to the poverty minimization.

Key Words: Microcredit, Financial Systems, Rural Development, Albania

INTRODUCTION

Microfinance in general stands for the financial services that occupy a small-scale of financial segments. Mainly it refers to the loans and savings which are called Micro credits. Microcredits are offered to the farmers; those who run small businesses and produce goods after recycling, repairing or sold for the second time. These categories are underlined as those who afford significant services, those workers working for minimum wages or commissions, those who earn income from the rent of a small amount of land, vehicles, or machinery and equipment. Generally the individuals in both rural and urban areas are benefiting from such financial services. Many such families have grossed multiple sources of income. Saving services allow savers to maintain excess liquidity for future use and to gain rent ability from their investments. The credit services permits the supplying of current investment income or consumption. In general, micro-credits can help people with low incomes, by these systems they can reduce risk, improve the management skills on the established business, increase output, gain higher profitability on investments, increase their incomes, and at the end progress the quality of their life and their dependents. Normally credits are widely used by commercial lenders in a very high

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cost to borrowers but especially for poor borrowers this is unaffordable. Banks generally claim that they provide conditions for small loans and deposit services are without charge. Even widely is believed that these declarations are artificial, because the cost of small monetary service delivery at the local level is very high to be supported financially.

NGO's and other non-bank in Albania are the financial institutions that guide mostly the development of appropriate methodologies to credit the low-income borrowers. But with few exceptions these institutions are able to direct only on a very small scale. Generally the financial instruments are not able to update the official markets about their reliability or their demands for savings and credit services. *“Those who have the power sometimes do not understand the demand but those who understand the application does not have the power”*.

In Albania the structure is changing because the microfinance revolution is recognized in many aspects of business. These services now are provided by competing institutions at the local level and giving the opportunity to the customers in rural areas. "Profitability" means coverage of all costs and risks without subsidizing or returning any profit to the institution. Profit-making institutions can provide coverage to a significant segment of poor households in Albania even though the process is progressing in various steps. The revolution on the micro-credits is based on the context of population and income levels in developing countries. The main reason of these services is to meet the global demand for formal sector and commercial sections without limiting particular parties.

On the other hand Savings and Credit Societies (SCS) are credit cooperatives that mobilize savings and provide loans only to some members. The activity of these institutions is based on the law "On Mutual Cooperation" and the law "On Savings and Credit Societies." Indispensable operation of micro-credit institutions arise the problem of lack of interest for awarding microcredit banks which help the small business in Albania, usually farmers in rural economies. A significant role in supporting the establishment and consolidation of (SCS), are some special donors with some of the well-known projects. Today in Albania operates 81 SCS, which are in the phase of consolidation. Some parts of the savings, mobilized by members of the SCS are still low but the first psychological views of this process are evaluated as positive. Consolidation and expansion of the operation of SCSs is increasing rapidly their weight in the market and its creating a distinguish premise of organizing developed banking institutional forms. It is now improving the legal basis of the operation and emerging appropriate regulatory and supervisory framework. Bank of Albania, as the supervisory authority, has already approved the regulatory framework and supervision of SCSs, aiming to support their micro-credit opportunities for the future development or the poverty minimization.

VALUES OF THE FINANCIAL SYSTEM

The existence of financial intermediaries and the fact that they realize the majority of funding in the economy, conditioned by a number of factors:

- *Benefits:* Financial firms realize any required transfer of funds from the lender to the borrower, determined by the necessary information which is considered an important opportunity for both sides.
- *Economizing instance:* Costs of the transaction information is too low in the case where they are performed by financial firms.

Financial institutions, compared with direct financing, realize a different range of services to lenders and borrowers. Some of them are:

- *Coordination of maturity and liquidity:* Financial firms can receive different maturity deposits, can give loans or they can invest in different financial instruments but the difference is that they are more likely to provide reconciliation between the different terms to maturity of their assets and liabilities. With this coordination financial firms provide liquidity, because it creates the possibility of attract depositors to lend in shorter terms than the term of the normal loans.
- *Distribution of risk:* Financial intermediary can minimize the risk of loan defaults by distributing it in different individuals. The distribution of the risk is usually finished to assets and liabilities.
- *Reduces the cost of monitoring:* Lenders usually need higher monitoring costs than banks, because they must oversee each borrower, while banks can reduce this.

Enhancement of Micro-credits in Albania

Microfinance is growing for several reasons as:

- **Guarantees to enrich the poor:** this activity can give an income generating business enterprise established by low-income families.
- **Provides financial sustainability:** helps to put up independent foundations
- **Prospects to build traditional products:** provides support for traditional products with greater flexibility at the price tags.
- **The role of microcredit is to strengthening and extending the existing formal financial systems:** it creates a credit unions network which provides potential benefits.

Microcredit for poor families

Currently, micro-credit is the most common form of lending to the poor in many parts of the world, especially the developing and transition countries. Micro-credit essentially means an alternative towards survival and alteration. This way is considered to be a great help in countries where legal contracts with individual borrowers may not be applied regularly, where judicial systems are slow, overloaded and corrupted states, where the poor have no more lawful collateral eligible offers, and where the credit history has no value, because nobody deals with registration or its distribution. In such a situation, as Yunus network has successfully managed to testify during the past three decades, the rights of creditors can be protected by shifting the

responsibility from the individual borrower to a community group. The idea of these bypass made to the legal gap is interesting and helpful. World Bank's researcher Javier Gine fields some experiments among clients of micro-credit in the Philippines. The conclusion was that a credit system based on individual responsibility is able to attract new customers and maintain existing ones happy. Poor people accept the responsibility of the group, because they know that is the only way to borrow. If they had a choice, they could have spent on individual contracts. Also, the banks, if they have the opportunity to find a solution to their problem with the collateral, would prefer to do business with individuals, because the formation and training of groups contains an additional cost. In fact, the model of pressure group members is one among many other substitute collateral. Even in some developing countries, poor people are able to borrow small amounts, pledged personal documents, such as birth certificates, which have no market value for lenders, but are important for borrowers. So here is how much can be achieved by means of "survival". The real revolution in finance, which has not happened yet in developing countries and transition countries, including Albania would be in creditors' rights. In China, India, Thailand, Mongolia, Vietnam, South Korea, the Philippines, even in the Balkans and some Soviet countries, the law does not allow you to determine the collateral credit agreements in general. Laws and customs in many developing countries impose arbitrary limits collateral. This damages entrepreneurial activity. The legalization of "Dead capital" is a known debate in Albania. This is because in the world yet there are differences between nations. In some countries, creditors and debtors are not allowed to enter into contracts where the application is placed on the road outside the court; in some other this flexibility is allowed, but not allowed to creditors to confiscate and sell collateral out of the legal process. In China, for example, there is a national registry for real estate collaterals. The most developed countries have the credit systems flexible which allow new creditors to verify independently whether is any claim or any additional powers in relation to the property or belongings that has been pledged as collateral. The microcredit program is a good opportunity to promote employment. The policies have created the appropriate infrastructure to support the formation of the businesses requiring these funds. The project is expected to begin on April 1, 2012 and the Albanian government has provided a fund of 1.3 million Euro for the first two years.

Conditions to benefit from micro-credits in Albania

- Target customers are basically women, usually due to the greater impact that they have in the welfare of the family
- Applicant may be NGOs, but businesses must have spectrum on agriculture, tourism or social cares towards the elderly are more preferred.
- Credits are without collateral.
- Payments are guaranteed by credit model group and the transition to the major ongoing loans can be purchased.
- Credit for income-generating activities or generating only improve asset (not for consumption) are allowed.

- Micro-credit service includes also the underprivileged individuals, who are excluded from other lending sources (including microfinance institutions on commercial terms).

Government Policies

During some conferences focused on the concepts and operation of business entrepreneurs in Albania, the Prime Minister underlined some segments of the industries as: assortment and processing of milk, handicrafts, vocational training, and employment agencies, as some of the potential business in Albania. According to the Prime Minister, Albania's poverty map highlights some areas, northeast and southeast. The government will do everything to collaborate with initiatives as Yunus network, by underling the importance of the microcredit system.

- Albanian government is arranging incubation for the social businesses which will provide consulting, training and network building projects and social business entrepreneurs' atmosphere.
- Any business venture with important ideas which would improve any industry or sector in Albanian economy will be supported with the investment fund. These investments will bring out the best projects for social or economic indicators.
- Many competitions for presenting the proposal of any enterprise will be fled across Albania.
- Partnerships with local authorities which will create the necessary business communities.
- University activities will be organized by including lectures, student activities to collaboration with universities in order to include in their curricula social business
- Public awareness on media reports to attract "Ambassador" of social business & public events on collaboration.
- Interact with international investments which would produce Albanian economic development, as Yunus social network.

AGRICULTURE IMPROVEMENTS ON MICROCREDIT SERVICES

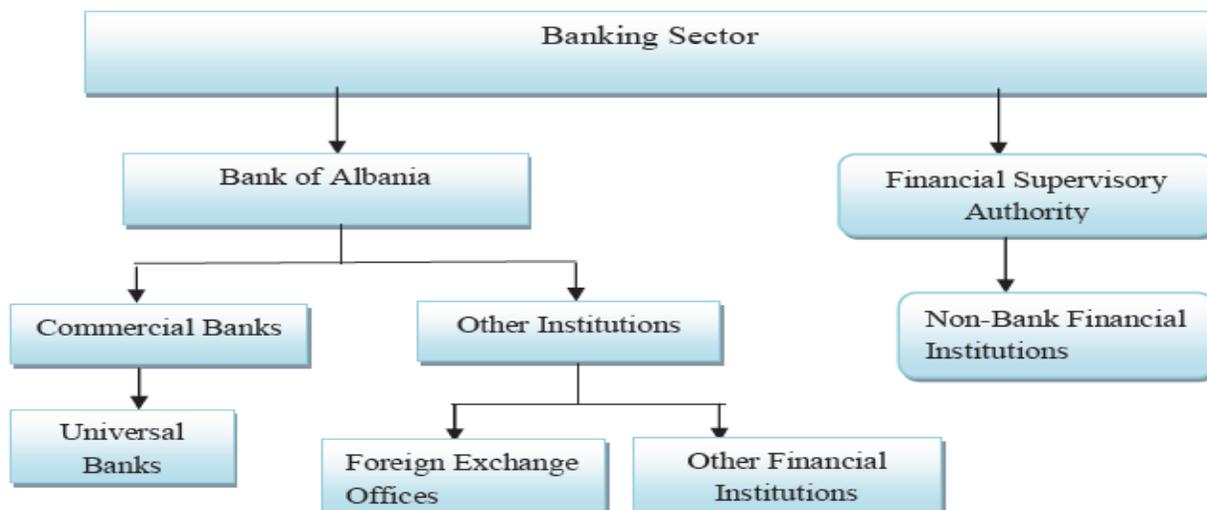
The economic crisis that has plagued throughout the majority of the countries of the world has its consequences also in states that are economically sensitive including Albania, too. Consequently the financial situation in Albanian was supported historically from the immigrants living and working in neighbor countries. Their funds were the main investments for many sectors especially for the agriculture. Sector that has most strongly felt the trend of crises is the agricultural sector which has a major role in the country's economic indicators. This fact has been noted by the Central Bank of Albania which is emphasizing more and more attention on this sector. Credit Unions and the non-banking institution are providing microcredit loans. This performance is supported for the projects in rural areas. About 3434 low-interest loans are provided with an interest about 1.5 percent. According to the director of the credit department,

Behar Gjoni, in 2012 there was an increase in the demand for microcredit loans to support various projects in agriculture. There was noticed an increase in customer deposits of the institution which reflect an increase in farmers' incomes in Albania. In this way, the economy and especially agriculture in Albania is progressing with secure steps towards development even in the problematic situations.

FINANCIAL SYSTEM IN ALBANIA

Financial institutions are called all the institutions established on a commercial society which deals with capital management or to provide profits, through various securities. Most widespread institutions of this nature are: financial company of saving or lending, security management firms, pension management means, insurance companies, etc.. Any relation between the borrower and the one who provides the money is realized through financial intermediaries or financial firms. The main feature of their activity is that they do not offer products, but financial services. Development of the banking system started after transition period in Albania which. In the previous planned economic system cash was served mainly as a unit of account and had a limited role on the means of exchange. This passive role of money, also reflected in the organization of the banking system of the country, where central banks serve as recording transactions between manufacturing units. Banking activities were divided along functional lines as: a bank for the agricultural outline, saving cash and insurance institutions that performed by collecting the public savings and provide simultaneously limited security services. Foreign trade operations were managed by the State Bank which simultaneously was performing the functions of a central bank in Albanian country. Improvement of the system succeeding by the passing of the years, by the continuation reforms in the financial and banking system. Reforms were implemented by aiming an increase in the effectiveness of the system. The first realization was the restructuring and some privatizations were made on the financial institutions.

Figure 1: Structure of banking sector



Source: Bank of Albania

POVERTY IN ALBANIA

UNICEF published some alarming figures on the level of poverty in the country. The study of this organization, focusing on families in need, from about 100 thousand families in need who are counted in the country, according to a survey, 23% of families are living in absolute poverty with a monthly income of no more than 4800 Lek per capita. While 10% live below the extreme poverty line. Only 25% of families living below the extreme poverty receive assistance. For this reason their children do not meet any of the five considered as basic needs. Health situation is also complicated because more than half of children are examined with chronic diseases because of the family's low expenses. Beginning of the global economic crisis influenced more in the level of poverty in Albania. Food and medication list are some of the most obvious indicators of poverty in our country. Recent years has added relatively the number of unemployed persons. Unemployment is the direct cause of poverty in this country. This trend is also associated with many other causes that show always two sides of the same story. In one hand, people are suffering from poverty; on the other hand they don't have the opportunities to find a job. Despite all these depressing facts, sometimes contradictory, the level of poverty in the country continues to remain high. Poverty problems can't be solved simply by any assistance fund, or it's not always considered according to the level of economic growth. The history has shown that even reforming the social assistance scheme didn't help them out but according to the Albanian government the only long-term solution that mitigates the poverty and the socio-economic problems is to increase supporting economic assistance especially in the poor areas, which will provide employment and income generation for individuals and families in need. Many areas "sleep" on valuable natural resources, which only the lack of serious initiatives for their use and income generation for people who have socio-economic problems, are still considered to be poor areas with high unemployed people. The aim of government policy is to reduce absolute poverty. This can be achieved through the promotion of initiatives for contraction businesses and motivate them solve the socio-economic problems with vulnerable groups. The purpose of the Government isn't just to set up several new businesses that employ tens or even hundreds of people, but to build a social business movement to involve as many actors and factors, bringing improvements and constant in the lives of a greater number of people.

From October 31 Yunus Social Business will introduce Social Business Movement in Albania and will launch a national business plan competition in university towns. Launch starts on 31 October at the University Luigj Gurakuqi in Shkodra, to continue in all the country's universities.

UNEMPLOYMENT LEVEL

Unemployment is one of the largest diseases that an economy, an individual, a family, a country can have. Unemployment in Albania amounts to 13.5% from 13.8% a year ago. Data were made public by the National Labor Council, but taking into account only the unemployed registered in

labor offices, while there are a considerable number of persons who are not registered as unemployed. Compared to 2011 there was a decrease of only 0.3% of the total number of unemployed. Albanians are expected to increase savings by 1% next year, a fact that will be reflected in the reduction of consumption to the same extent. Meanwhile, consumers will refrain from big purchases; this indicator will suffer a decrease of 47.9%. The consumer confidence index fell to 14.5% in the second 3-month period of 2012.

CONCLUSION

Microcredit in Albanian economic makes a significant factor which should be taken into consideration. It is quite evident that these institutions have a considerable weight in the Albanian financial sector.

1. Social impacts of microcredit in terms of employment of those section of the population who are "neglected" by the banking system is at high levels, which makes microcredit an element to be taken into account because it designs short-term and medium-term government policies. In a country where unemployment ranges is 13-15% of active power who works is very important to point out clearly that these institutions are more efficient tool to enable the self-employment.
2. In an economy where about 75% of GDP comes from micro and small enterprises, the role of microcredit tends to grow in the future before it is parallel with a greater expansion of the banking system.
3. If you analyze today's expansion of the banking sector you will notice that the map of Albania is almost fully covered by microfinance institutions operating in rural or urban area.
4. Micro credits are providing the best geography lending service for clients. For further it can be said that there are about 55,000 registered small businesses.
5. The Albanian economy will be supported for a long time in services and trade because a substantial part of it will be realized by small businesses mainly family businesses. Microfinance institutions in Albania are considered more flexible in providing service in terms of speed and credit delivery procedures which can be approximated more efficient to this category of customers.
6. Microfinance institutions in Albania are improving each year the indicators of sustainability.
7. Microfinance institutions in Albania are passing in the process of legal transformation NGOs and maybe in a near future in bank specialized in microfinance.

In this framework, the relation between microcredit and the poverty level was underlined to state that these economic movements are improving the economic situation for Albanian population.

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