

PROGRESS OF THE MICROFINANCE SECTOR IN ALBANIA, CURRENT CHALLENGES AND THE PERSPECTIVE OF THIS SECTOR

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Abstract: *The paper presented by the authors aims to research the role of Microfinance in Albania over the years, especially in improving living conditions for the less privileged groups. The authors have tried to give a summarized panorama regarding the progress and evolution of Microfinance in the state of Albania. Portraying the latter as a good alternative solution to the shortcomings of the Traditional Banking System, to address the needs of certain segments of the population. The analysis used by the authors focuses on the major and current challenges that the Microfinance sector in Albania is facing, it also examines the perspectives and potential future opportunities of this developing sector in our country. Since most of the economic entities that operate in our country are small and medium-sized businesses, where family businesses account for a significant number of the total number of economic entities, the authors have considered it important to research this segment of the economy.*

Keywords: *Microfinance, Financial System, Financial Supervision Authority, Digitization of financial services in relation to market demands.*

INTRODUCTION

In this paper, the authors have tried to present a comprehensive overview of the financial system in Albania, but with the primary focus on the financial sector of microfinance. The authors of this paper, based on official data, present the evolution of the Microfinance sector from the 1990s to the present day. The researchers in this work are based on official secondary data provided by prestigious national and international institutions. Microfinance has made an important contribution over the years to the Albanian economy. Over the years, microfinance has facilitated lending to individuals and businesses that had difficulty accessing the banking sector. At the end of this paper, the authors present the findings and give their opinions and suggestions regarding this sector.

THE HISTORY AND PROGRESS OF FINANCIAL INSTITUTIONS IN THE SPECTRUM OF MICROFINANCE IN ALBANIA.

Microfinance in Albania during the 1990s was seen as an essential instrument for the population and small businesses that did not have access to the traditional banking system. Microfinance institutions during this period mainly offered small loans, with the aim of alleviating poverty and encouraging entrepreneurship. This sector became an important financial source for farmers and small businesses. During this period, microfinance, through its programs, has pointed out that it is possible to give loans to low-income families by reducing the high interest rates, even in many cases requiring guarantees in relation to the collateral (Johnson, 1997). Improving the living conditions of the low-income classes and their exit from poverty through financial and social inclusion is the primary objective and the main reason for the existence of microfinance (Milana, 2020). Programs during this period were aimed at alleviating poverty and extending services to millions of poor and diverse families around the world. A group in the formation of economic theory shows how new contractual forms of a key to the success of microfinance - issues of lending contracts in the group with a common purpose (Morduch, 1999).

During the period from 2000 to 2010, microfinance institutions in Albania were transformed and expanded, offering a wider spectrum of financial services, with improved quality. This period brought a positive impact on the development of local communities, enabling wider access to financing, especially for marginalized groups and rural areas. The competitiveness between the microfinance institutions in Albania during this period began to increase between the different operators operating in our country. Also, this was a characteristic that emerged as evidence in many different countries of the world that were developing during that period of time. The competition between microfinance institutions operating in developing countries has grown significantly, especially during the first five years of the 2000s (McIntosh, 2005).

During the period from 2010 to 2020, the microfinance sector in Albania faced new and complicated challenges, such as managing the impact of the global financial crisis. The microfinance sector has become a major factor in the country's economic development, especially in rural areas. The 'microfinance revolution' is the term often used for the successful expansion of small-scale financial services to the poor with high repayment records in developing countries (Kono, 2010). Microfinance institutions further improved risk management and diversified services to expand financial access and increase the number of clients (Assefa, 2013). This period brought an increase in the impact of microfinance in the economy and society, helping communities and individuals in need of these services (Cocoli, 2022). During this period, the microfinance sector had a positive impact on the local economy, especially for groups with lower access to the financial system. Also, this sector has increased the focus on investments that help individuals and underprivileged communities (Loca, 2014). The latest perspectives and developments of microfinance in Albania from 2020 onwards are presented below. The poor strata of the population and small businesses were particularly challenged by COVID-19, forcing microfinance institutions to take support measures, such as extending loan terms or restructuring them (Zheng, 2021).

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This situation was similar in other countries that are part of the Balkan peninsula, as for example in the case of the state of Romania, in which the application of restrictive measures to combat and prevent the spread of the SARS-CoV-2 virus, profoundly influenced the crediting of various subjects during that period (Antik, 2022). During the year 2023, the institutions operating in the field of microfinance in Albania have begun to prioritize technological developments and digitization: This process requires investments and training, for the coordination of new technology with current operations (Scan TV, 2023).

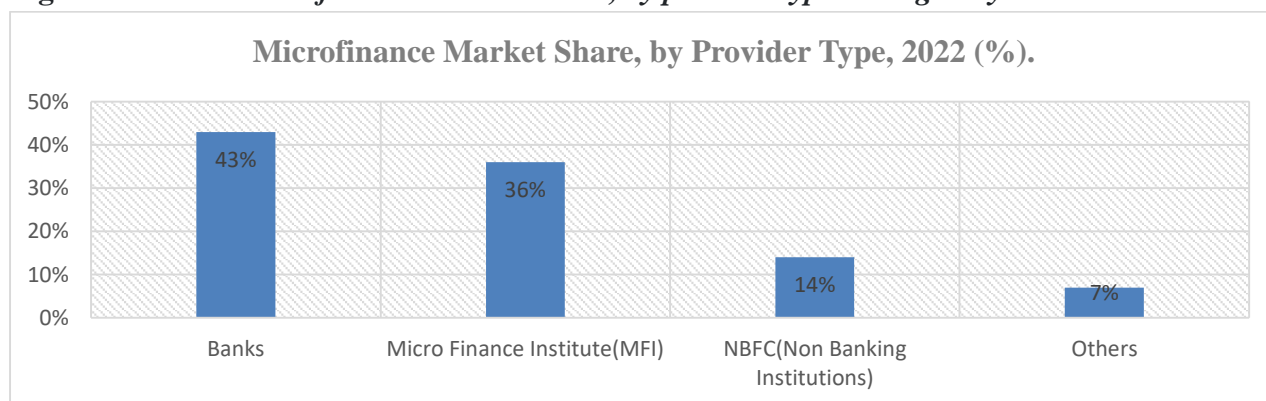
METHODOLOGY

The quantitative data used by the authors regarding microfinance in Albania have been provided, using the statistical data located in the Data Base of the Central Bank of Albania. These data were processed by the authors during the month of March 2024 (Financial_Stability/Financial_Stability_Indicators, 2024). Some of the secondary data are provided by Precedence Research, which is a Canada/India based company that specializes in strategic market studies and from the European-Microfinance Network (Network, 2024). The processing of these data, graphical representation, was carried out by the authors using the Microsoft Excel computer program. The interpretation of the data related to the Financial System in Albania with the main focus on microfinance was carried out by the authors.

THE MICROFINANCE INSTITUTIONS OPERATING IN GLOBAL RANKING

In the global ranking for the year 2022, based on the statistics published by Research, Precedence, it results that: Global Microfinance Markets had a Size of 226.37 billion American Dollars (USD). It is claimed that by 2032 this market will reach the value of 646.25 billion American Dollars (USD) (precedenceresearch, 2023).

Figure 1: Global Microfinance Market Share, by provider type during the year 2022



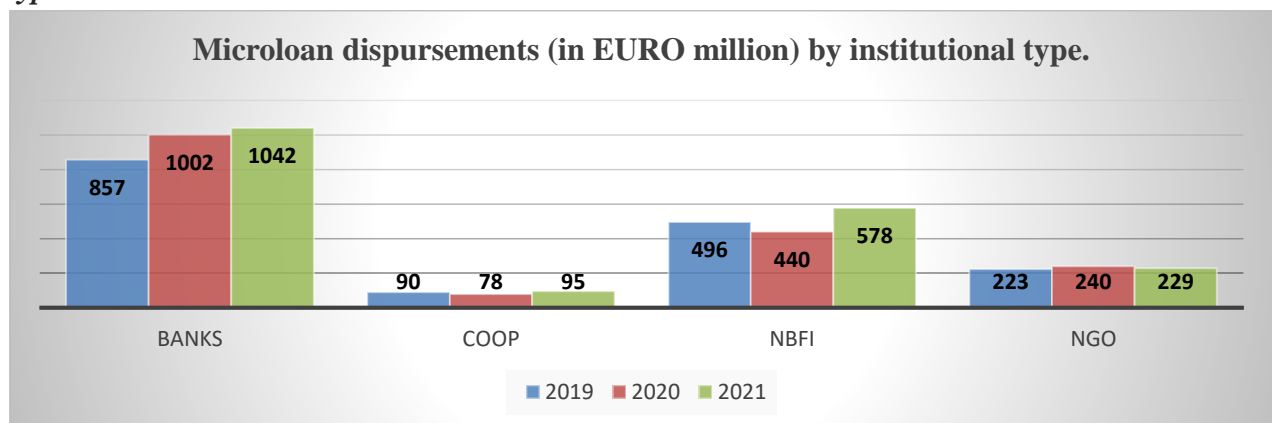
Source: Precedence Research (2023).

Based on the data published by Precedence Research during the year 2023, it results that: Financial institutions such as Universal Banks, made up 43% of the total financing at the micro level at the global level. Financial institutions of the Micro Finance Institution (MFI) type made up 36% of the total of microfinances globally. Financial institutions of the NBFC type Non-Banking Institutions made up 14% of the total of microfinances globally.

Other financial institutions own 7% of the total financing at the micro level at the global level. In the North American Region, the institutions of the microfinance sector offer a variety of microloans, with a focus mainly on small businesses and individuals with low incomes. The United States of America and the state of Canada are the main countries that during 2023 have given a special role to the demand for microfinance in the North American Region. Based on global regional statistics of 2023, the economic sector in which Microfinance is included dominates in the Asia region and the Pacific region.

Based on the opinions of different experts in this sector, it is concluded that: this growth of this financial sector can be attributed to the increase of initiatives undertaken by the governments of these countries. The governments in these regions aim to reduce poverty in the population and improve living conditions for individuals. In Asia region and in the Pacific region, a good part of the population lives in rural areas and a good part of them have limited access to the services offered by second level banks. In the region of Europe, during the year 2022, it was found that: The State of Germany, the United Kingdom and France are the three main countries with the most developed system in relation to microfinance (MFC, 2022). In 2019, the banking sector in Europe has financed micro lending worth 857 million Euros. During the year 2020, the banking sector has financed micro lending in the value of 1002 million Euros, or in other words 145 million Euros more than last year 2019. During the year 2021, the banking sector has financed micro lending in the value of 1042 million Euros, or to put it another way, 40 million Euros more than last year 2020. In 2019, the Coop financial sector in Europe has financed micro lending in the amount of 90 million Euros. During the year 2020, the Coop financial sector has financed micro lending in the value of 78 million Euros, or in other words 12 million Euros less than last year 2019. During the year 2021, the Coop financial sector has financed micro lending in the value of 95 million Euros, or in other words 17 million Euros more than last year 2020.

Figure 2: Microloan disbursements (in Euro million) in 2019, 2020,2021, by institutional type



Source: Microfinance in Europe, Survey Report (December 2022).

In 2019, the NBF financial sector in Europe has financed micro lending in the amount of 496 million Euros. During the year 2020, the NBF financial sector has financed micro lending in the value of 440 million Euros, or in other words 56 million Euros less than last year

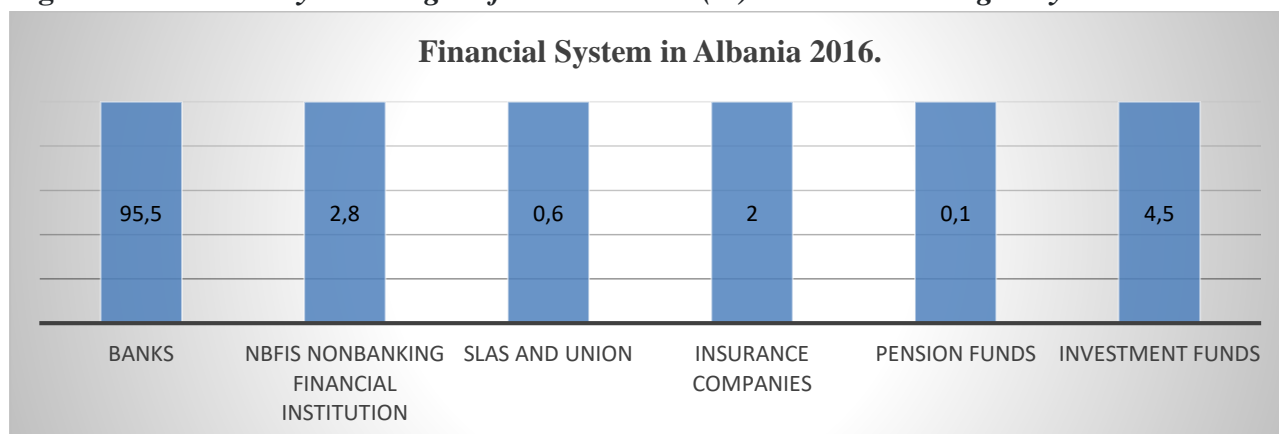
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2019. During the year 2021, the NBF financial sector has financed micro lending in the value of 578 million Euros, or in other words 138 million Euros more than last year 2020. In 2019, the NGO financial sector in Europe financed micro-lending in the amount of 223 million Euros. During the year 2020, the NGO financial sector has financed micro lending in the value of 240 million Euros, or in other words 17 million Euros more than last year 2019. During the year 2021, the NGO financial sector has financed micro lending in the value of 229 million Euros, or in other words 11 million Euros less than last year 2020. Based on the publication of the Financial Supervision Authority in Albania (AMA), Albanian Microfinance during 2022 had in its composition the most consolidated non-banking financial institutions, with microfinance as their main activity, which together owned a loan portfolio with a surplus of 382.3 million euros in total. Also, these economic entities during 2022 owned more than 170,000 customers. (Association, <https://ama.com.al>, 2024)

RESULTS, PROGRESS AND PERFORMANCE OF MICROFINANCIAL INSTITUTIONS IN ALBANIA FROM 2016 TO 2022

Below, the authors have presented in a summarized way the Financial System in Albania, with the opposite of the financial institutions that make it up for the time period from 2016 to 2022.

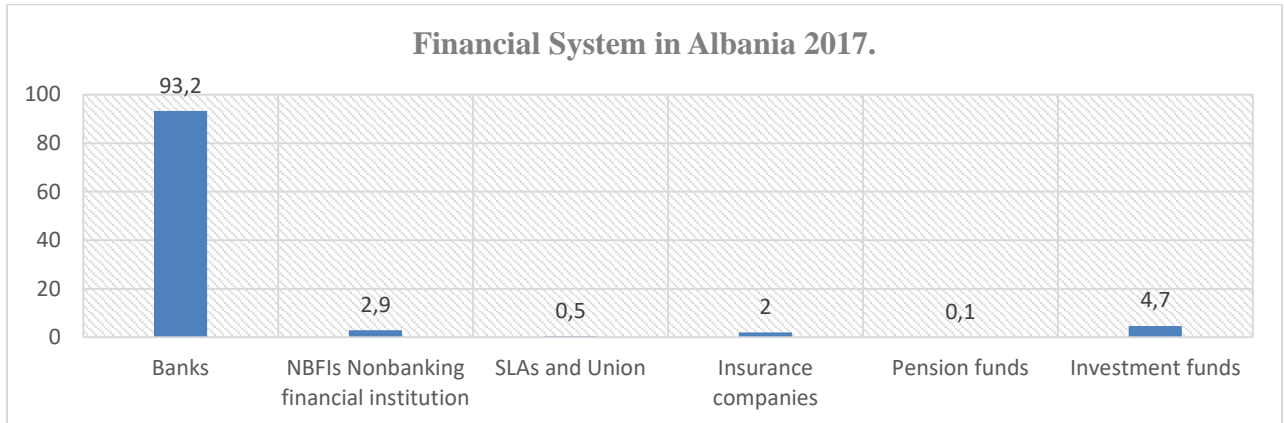
Figure 3: Financial System weight of assets to GDP (%) in Albania during the year 2016



Source: Bank of Albania (2024).

Below is the composition of the Financial System in Albania for the year 2016. The financial sector in which they participate, the Banking Sector, comprises 95.5% of the entire Financial System in Albania, while the remaining 4.5% is made up of Financial Institutions present in the System. The Non-Bank Financial Institutions sector comprised 2.8% of the entire financial system in 2016. Financial institutions such as: SLAS and Union during 2016 comprised 0.6% of the entire Financial System in Albania. Pension funds during 2016 comprised 0.1% of the entire financial system in Albania. Pension Funds occupied the last place in terms of the Financial System of that year. The financial sector in which they participate, Investment Funds in Albania, made up 4.5% of the entire system for 2016 and took the second place in the total Financial System.

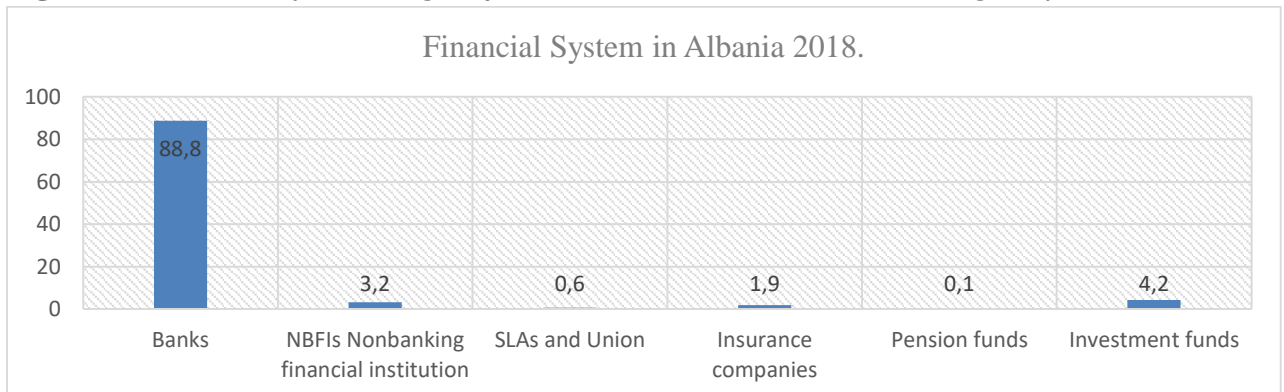
Figure 4: Financial System weight of assets to GDP (%) in Albania during the year 2017



Source: Bank of Albania (2024).

The Banking Sector in Albania during 2017 comprised 93.2% of the entire Financial System. Compared to the previous year, 2016, the specific weight of this sector has decreased by 2.3%. The Non-Bank Financial Institutions sector comprised 2.9% of the entire system in 2017. Compared to 2016, this sector has increased by 0.1%. SLAS and Union comprised 0.5% of the entire Financial System during 2017, compared to the previous year, this indicator decreased by 0.1%. Pension funds comprised 0.1% of the Financial System during 2017. During 2017, Investment Funds comprised 4.7% of the entire system. These Institutions occupied the second place in terms of importance during this year. Compared to the previous year, the weight of this voice increased by 2% compared to 2016. The financial sector in which they participate, insurance companies during 2017 comprised 2% of this market.

Figure 5: Financial System weight of assets to GDP (%) in Albania during the year 2018



Source: Bank of Albania (2024).

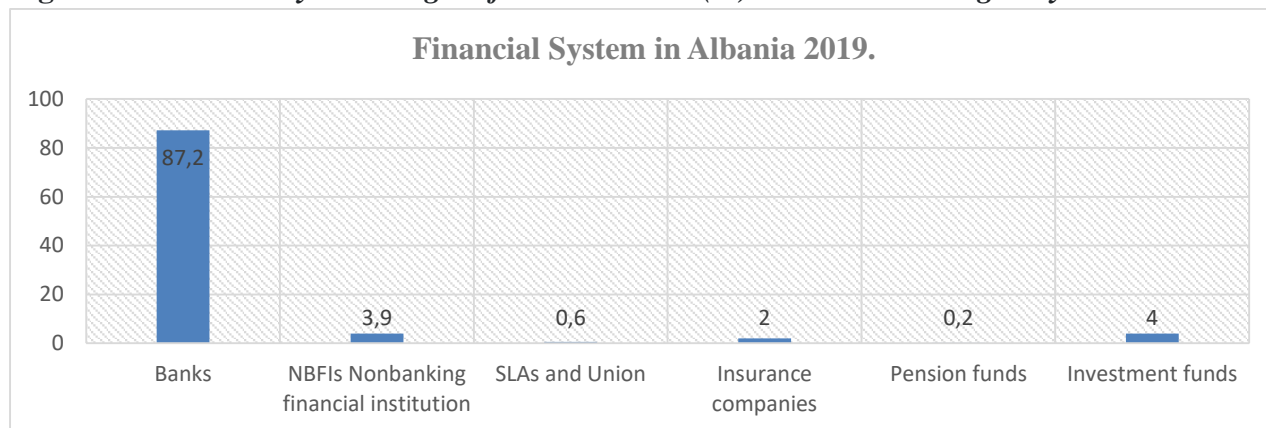
The Banking Sector in Albania comprised 88.8% of the entire Financial System. Compared to a year ago, the weight of this sector has decreased by 4.4%. The sector in which Non-Bank Financial Institutions are included during 2018 comprised 3.2% of the entire Financial System. Compared to 2017, the sector that includes Non-Bank Financial Institutions has increased by 0.3%.

Financial Institutions SLAS and Union comprised 0.6% of the entire System during 2018. Pension funds during 2018 comprised 0.1% of the entire Financial System. Investment

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Funds made up 4.2% of the entire system for 2018. These Institutions were the second most important in 2018. Compared to the previous year, the weight of this item decreased by 0.5%. Insurance companies made up 1.9% of this market during 2018. Compared to a year ago, this sector, where insurance companies are a part, decreased by 0.1%.

Figure 6: Financial System weight of assets to GDP (%) in Albania during the year 2019

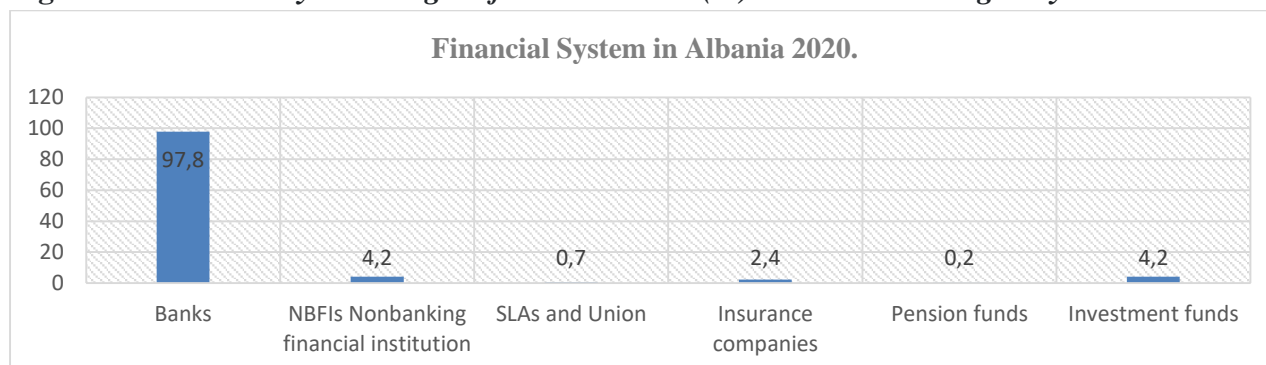


Source: Bank of Albania (2024).

The Banking Sector as a component of the Financial System during 2019, comprised 87.2% of the entire system. Compared to the previous year, 2018, the share of this sector, which includes Second Level Banks, has decreased by 1.6%. The sector in which they participate, Non-Bank Financial Institutions during 2019 comprised 3.9% of the entire Financial System. Compared to a year ago, this sector had a slight increase of 0.7%. The financial sector, which includes SLAS and Union during 2019, comprised 0.6% of the entire System. The financial sector in which Pension Funds are included during 2019 comprised 0.2% of the entire System. The financial sector, which includes Investment Funds, made up 4% of the entire system for 2019. These Institutions took the second place in terms of importance during 2019. Compared to 2018, the weight of this voice decreased by 0.2%.

Insurance companies made up 2% of this market during 2019. Compared to the previous year 2018, the sector in which Insurance Companies are a part expanded with a modest increase of 0.1%.

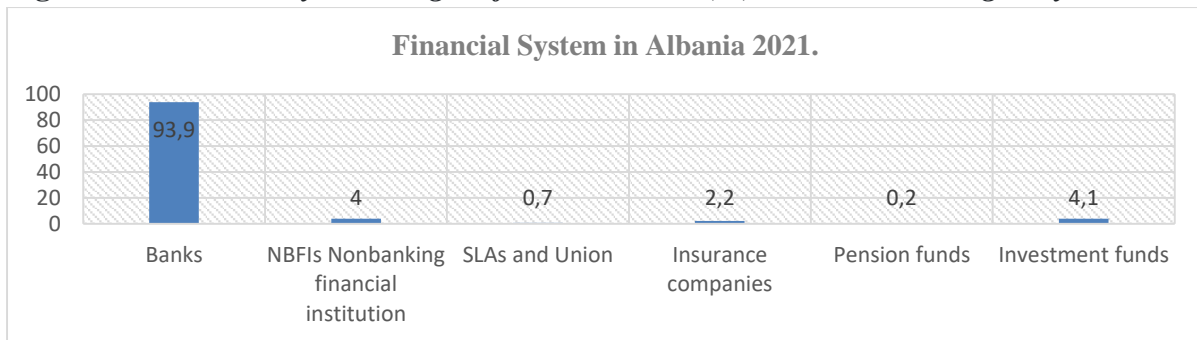
Figure 7: Financial System weight of assets to GDP (%) in Albania during the year 2020



Source: Bank of Albania (2024).

The financial sector in which they participate, the Banking Sector during 2020 comprised 97.8% of the entire Financial System in Albania. Compared to the previous year 2019, the specific weight of this sector has weighed a considerable increase of 10.6%. Non-Bank Financial Institutions, during 2020, comprised 4.2% of the entire Financial System. Compared to the previous year, 2019, this sector has grown by 0.3%. The Financial Sector in which SLAS and Union participate during 2020 comprised 0.7% of the entire System. Compared to 2019, this sector had a modest growth of 0.1%. The Financial Sector, which includes Investment Funds, during 2020, comprised 4.2% of the entire system. These Institutions occupied the second most important place during 2020. Compared to 2019, the weight of this financial sector increased by 0.2%. The financial sector in which they participate, insurance companies during 2020 comprised 2.4% of this system. Compared to a year ago, this financial sector expanded by a modest figure of 0.4%.

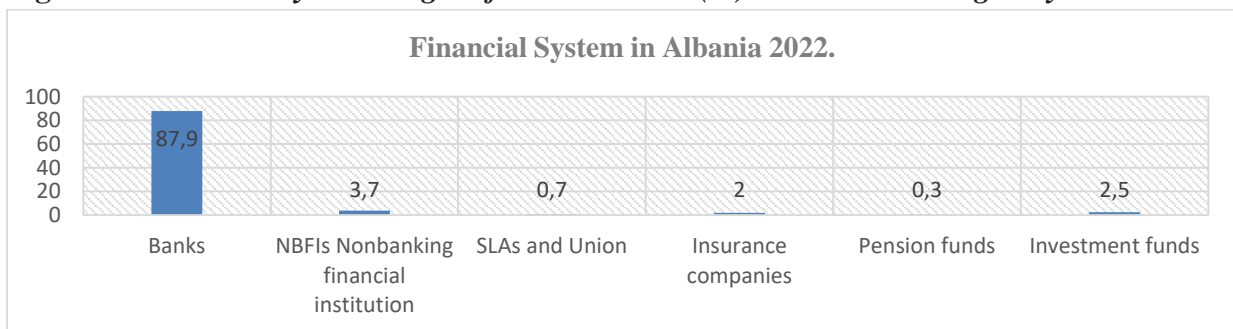
Figure 8: Financial System weight of assets to GDP (%) in Albania during the year 2021



Source: Bank of Albania (2024).

During 2021, the Banking Sector comprised 97.8% of the entire Financial System in Albania. Compared to 2020, the share of this sector has decreased by 3.9%. The Non-Bank Financial Institutions sector comprised 4% of the entire system during 2021. Compared to 2020, this sector has decreased by 0.2%. SLAS and Union and Pension Funds comprised 0.9% of the entire System. Investment Funds comprised 4.1% of the entire system for the year 2021. These Institutions occupied the second place in terms of importance during this year. Compared to the previous year, 2020, the weight of this voice decreased by 0.1%. Insurance companies comprised 2.2% of this market during 2021. Compared to the previous year 2020, this sector suffered a decrease of 0.2%.

Figure 9: Financial System weight of assets to GDP (%) in Albania during the year 2022



Source: Bank of Albania (2024).

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The Banking Sector in Albania during 2022 comprised 87.9% of the entire system. Compared to the previous year 2021, the weight of this sector, which includes Second Level Banks, has decreased by 9.9%. The financial sector, in which Non-Bank Financial Institutions participate, during 2022 comprised 3.7% of the entire Financial System. Compared to the previous year 2021, this sector has decreased by 0.3%. These Institutions occupied the second place in terms of importance during this year. The financial sector in which they participate, SLAS and Union, comprised 0.7% of the entire Financial System this year. The financial sector in which they participate, Investment Funds, during 2022 comprised 2.5% of the entire Financial System. Compared to 2021, the weight of this voice was reduced by 1.6%. Insurance companies made up 2% of this market during 2022. Compared to the previous year 2021, this sector suffered a decrease of 0.2%. Based on the Report published by the Financial Supervision Authority in Albania, it results that: The total number of loans granted by microfinance institutions in Albania during 2022 was 297,813 loans. Compared to the previous year 2021, this indicator has increased by 14.6%. (Association, Raporti i Mikrofinancave Shqiptare 2022) Based on these data, it can be seen that the main specific weight of lending by microfinance institutions is occupied by loans for individuals with a value of 274,999 loans, or in other words, this indicator is 15.8% higher than the previous year. The new lending made available to the business sector was narrowed during 2022. The value expressed in the figure of 15,717 loans, is 267 units or 1.6% less than in 2021. Loans for the sector involving farmers and agribusinesses increased by 1000 units or 18.5%, while the number of other loans decreased by 337 units or 32.4% compared to 2021.

DISCUSSIONS/CONCLUSIONS

The financial sector of Microfinance in our country has played an important role in the economic development of Albania. By offering financial resources to layers of the population, which usually have a hard time or are excluded from traditional banking systems.

The microfinance sector in Albania has faced challenges in liquidity management, especially in an uncertain economic environment. This has required careful management of financial resources. Microfinance institutions should focus on strong financial strategies to better manage liquidity and maintain their sustainability in uncertain economic times. Microfinance institutions have encountered challenges in complying with international regulations and standards, which are critical for integration into global markets (Ledgerwood, 2013). Sustainable strategies for compliance with these regulations must be developed, including staff training, as well as updating policies and procedures.

Digitization has offered opportunities for improving services, but it has also brought challenges, such as the need for investments in technology and staff training. Microfinance should invest in technology and focus on the digitization of their services, to improve their efficiency and effectiveness, as well as to expand the geographical reach of this sector, managing to better serve communities. Credit risk management strategies should be strengthened, including regular portfolio analysis and the implementation of corrective measures, when necessary. Microfinance has had a positive impact on socioeconomic development and the improvement of living conditions in local communities. Microfinance institutions should continue to invest in projects that have a positive socioeconomic and

environmental impact, helping to develop communities. Inclusion of marginalized groups and their empowerment through financial education should be a priority, building a culture of financial awareness throughout society.

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