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MICROCREDIT AS AN IMPORTANT INSTRUMENT FOR THE DEVELOPMENT OF RURAL AREAS. REGION OF SHKODRA

Abstract:

Microfinance and in particular micro-credit has become a very important topic in global poverty reduction debates. It has become very popular the idea that the "access in microcredits" helps poor families. Families start a micro-entrepreneurship that will enable them to improve their income and ultimately in reduction of poverty. So far the results of the research have been scarce, and most have been contested.

The objective of this paper is to evaluate the impact of microcredits on family income and to identify the difficulties of poor families after the access to microcredit.

The study is an experimental case of rural areas of Shkoder region where are analyzed the families participating in microcredit programs and non-participating, which will be observed by the time.

Microcredit analysis integrated by the time, the microcredit impact on household income is expected to be positive and to have a significant impact on household income. The study is based on the data collected by 200 questionnaires distributed in the rural areas of Shkoder region.

The new paper argues that providing affordable financial services to the rural population, microcredit remains to be an important strategic component of development. On the other hand, what this paper provides is the need to create new microfinance institutions that support their role in accumulation and wealth creation for their clients.

Keywords:

Microcredit, sustainable development, strategic development, rural development, lending.

Introduction :

1.1 Microfinance and its Institutions in Albania

Microfinance in Albania has become an important segment of the financial sector. Today It represents 2.8% of the total loan portfolio in the country and about 60,000 microcredit by the number or 20% of the total number of loans granted within a year. In this area are operating Microfinance financial institutions, and even banks, focusing their activity on the areas with the highest economic potential in the country. On the demand side, the economy is dominated by micro-enterprises and small enterprises, which can be considered as the foundation for growth, job creation and visible contribution to poverty reduction.

Micro and small enterprises have led to the growing use of MFIs (Microfinance Institutions), which are the main providers of microcredit and savings products, facilitating both rural and urban areas. These microfinance institutions were developed in Albania after the 90-s and are now a well-known part of the financial markets, especially thanks to government support and foreign donors.

The highest levels of MFI's organization are their networks¹, the creation of which is considered an important element in developing microfinance sector and in increasing the provision of financial services, especially in loans for small businesses and households. In fact, their creation has affected the stabilization and consolidation of the microfinance sector. The development of this sector has also become one of the cornerstones of the government's in poverty reduction strategy. While foreign donors always support the provision of microfinance services through funding, training and capacity building.

Issues related to this sector, such as the establishment and consolidation of a legal, regulatory and enforcement framework, have led to greater cooperation between the Bank of Albania and microfinance institutions.

Today, microfinance institutions are authorized to give loans directly or through partnerships with banks. During a 20-year period, from the moment of creation to date, microfinance services have spread to more than 80% of the country's regions.

1 The idea of creation of microfinance network, for the first time was thrown by Besa Foundation in 2001 in a seminar organized by herself and was welcomed by BOA, MF and Word Bank.

1.1.2 The creation of a national microfinance network for Albania.

Limited competition was one of the first factors behind the success of microfinance and its institutions in Albania. The existence of only two banks in Albania in the post-90-s, that of Agrarian and Savings banks, with small funds, and completely inexistent in rural areas, helped a faster, simpler and more competitive spread of MFI-s.

Despite the eayses expansion and the fact that MFI-s have operated for several years and have reached a certain level of maturity, they have remained sensible in contrast to the demand for financial services. None of them was financially sustainable and their products were initially limited, as well as their geographic extent. There were also technical problems in daily work. This led to the necessity of creating a national microfinance network or a microfinance union.

The Albanian Microfinance Network was the most appropriate platform for increasing co-operation and coordination between microfinance institutions in Albania, which led to a better positioning of the sector. Also, this network played an important role in political lobbying for microfinance and to ensure continued improvement of the institutional and legal framework of microfinance institutions.

A microfinance network would contribute to the definition of a national microfinance strategy that would provide a mirror of the microfinance sector, its challenges and opportunities, pointing to barriers and suggesting solutions to overcome capacity constraints, regarding the financial sector and the legal framework. The national microfinance strategies were broadly integrated into poverty reduction strategies in order to develop microfinance in line with the highest national policy objectives such as employment and business, and promote regional and local development . The national policy objectives, on the other hand, can create favorable conditions for the development of microfinance.

International experience suggests that such a network should be open to the acceptance of different types of microfinance institutions, representing different philosophies, different structures, different crediting methodologies, serving customers in different ways. The diversity allows us to get an idea of what kind of MFI-s can best fit in any socio-economic environment, client type, or cultural background.

In 2006, six key microfinance institutions joined by creating the Albanian Microfinance Association for the first time in order to serve as qualitatively, intensively and regularly the promotion of this sector and the development of an alternative finance.

1.1.3 Microfinance Institutions and Future Sector Trends in Albania

In 2007, the Albanian Microcredit Partner (PSHM) with the USAID support turned to Opportunity Albania, enabling the introduction of foreign private capital into its microcredit action and introducing since 2010 as NOA. In 2008, the Besa Foundation returned to the Besa Fund by obtaining a license from the non-bank financial institution by the Bank of Albania and by establishing the ABC Foundation, which would serve social financing by returning its financial activity back to the company. The State Mountain Development Fund (MDF) also returns in 2008 at the FAF. It is aiming at an institutional direction increasingly independent from the public sector and in compliance with the regulatory requirements of the Bank of Albania.

Meanwhile, Vision Fund Albania, which started its activity since 2001, continued its cooperation and link with World Vision as part of a more regional and global network. Presently, the legacy of this institution is continued by the Agro & Social Fund, a financial institution that is wholly under Albanian capital.

The extraordinary expansion of microfinance institutions as in the human, infrastructural as in financial spheres during this period brought new problems.

Exposure to risk due to the high level of informality of the Albanian economy and the rural economy, in particular, the economic crisis, a still poor financial culture among the served populations, and the abuse of the trust relationship on the ground, resulted in an increasing case of problem loans.

Microfinance consistently represented a level of problem loans many times smaller than the banking system, never passing the sector by 5%, while in the Albanian banking sector it was 25%. The emergence of this phenomenon was an incentive for all microfinance institutions to engage further in introducing more solid new regulations and protocols (in particular after ASD involvement) which have yielded positive results among years by providing a level of problem loans always several times lower than the banking sector and improving total portfolio quality.

Actually, there are 28 financial institutions in Albania (not the largest financial institutions), the first FISA, the Micro Credit BESA, the NOA and the Vision Fund, as well as a large number of other small microcredit institutions, in the form of associations, social organizations, foundations), Union of Savings Credit Institutions and 16 banks of second level, many of which are involved in microfinance and microcredit.

Microfinance can be considered as one of the best and most innovative practices from the period when it originated in our country to withstand the socio-economic crisis faced by

the country. Challenges of the legislative framework, from the competition or the infrastructure ones, could not be easily faced without the support of this sector.

And though microfinance was introduced in parallel and in other countries that just emerged from the communist regime, not in all countries it achieved the same successes as in Albania where, in 25 years (1993-2018), they were injected into the economy over 1 billion USD supporting the creation of over 350,000 new jobs. Albanian Microfinance has responded successfully to the main socio-economic objectives for which it was created.

In the future, it will also be an important factor for economic development in the country and for the financing of small entrepreneurs and small farmers. Demand for funding will continue to grow as well as macroeconomic indicators that are still far from European² neighbors.

2. Assessment of the impact of microcredit on incomes, the case of Shkoder District.

As noted, and in abstract for the completion of the work, data collection was carried out by 200 inhabitants of rural areas in the district of Shkoder through the questionnaires. The loans are distributed to two groups of residents, borrowers and non-borrowers, which makes it possible to estimate the loan impact on income and enable the identification of the impact of other social or economic factors on household income. Through the data analysis it is possible to find an econometric model showing the relation of income and other theoretically known variables that affect the incomes.

2.1 Data Analysis

In this section of the work we construct and evaluate an econometric model to explain the income of interviewed individuals, borrowing and non-borrowing. There are panel data , because we have a relatively high number of individuals in a study for a certain group of people, represented by the villages in our case. Our dependent variables are the income for both groups taken under review. In the case of borrowing individuals, we have taken into consideration the sixth month of the third after the credit benefit, as the widest analyzed period. We have presented the independent variables in the table below.

² Currenty the ratio of private lending is about 40%compared to GDP ratio, whereas the avarage in EU is over 100%

Tabela 2.1: Undependet variables considered, relevant symbol in questionnaire and description

Variable	Questionary	Description
<i>gender</i>	<i>a1</i>	<i>Variabèl dummy, equal 1 if individual is male and 0 if female,</i>
<i>age</i>	<i>a2</i>	<i>Age (year)</i>
<i>edu</i>	<i>a3</i>	<i>education (grow order 1-5)</i>
<i>fam</i>	<i>a9</i>	<i>Number of family members</i>
<i>fam_emp</i>	<i>a11</i>	<i>Numer of family membersemployed</i>
<i>edu_fam</i>	<i>a14</i>	<i>Education level in family (grow order 1-3, weighting responses)</i>
<i>loan</i>	<i>b1</i>	<i>Variabèl dummy, equal 1 if individual is borrower and 0 if it is no borrower.</i>
<i>loan value</i>	<i>b2</i>	<i>Loan amount in /000 lekè</i>

Source: collected data from questionnaire

The following table presents the results of the econometric model estimation by means of two methods: OLS and 'random effects'. The Ordinary Least Squares method is known in the econometric for estimating the linear regression model. In practice, OLS optimization is performed by minimizing the amount of square pattern errors. The OLS evaluator is consistent when the regressors are exogenous and there is no multicollinearity in the equation. In the way that the parameters of the model are properly evaluated, the errors must be homoskedastic, that is, with constant and unrelated variance with one another. The 'random effects' valuation technique is appropriate for the type of panel. This method considers explanatory variables as being obtained from random events. The logic lies in the assumption that the difference between units (villages in our case) is random and unrelated to the independent variables included in the model. In that table is presented the valuation for each coefficient, as well as the p-value observed. If the p-value (in the table: $\Pr(> | t |)$) is larger than the predetermined alpha (we consider the value of 5%), then the relevant parameter is not statistically important, so does not affect to the dependent variables, income. If the p-value is less than the value of 5%, then the relevant parameter is statistically important, so it has a positive or negative impact, according to the relevant sign, on the income.

As seen from the table below, in the case of the OLS model, there are some problems with the relevance of variables related to gender, education, number or family memebers and the revelant education. Nor does this p-value increase ever more than 5%. In the case of the random effects model, all the variables are statistically significant as in any p-value case it is lower than 5%. All the variables have a positive impact on income, with the

exception of the number of household members who have an impact on the reduction in income. In this case, R-square is also higher, about 28%.

Table 2.2

Dependet variable: ln(income_)				
<i>Undependet variable</i>	<i>OLS</i>		<i>Random effects</i>	
	<i>Estimation</i>	<i>Pr(> t)</i>	<i>Estimation</i>	<i>Pr(> t)</i>
gender	0,0034	0,638	0,056	0,003
ln(age)	0,0812	0,001	0,00849	0
edu	0,00266	0,315	0,0483	0,0024
fam	-0,00615	0,784	-0,0017	0,0062
fam_employ	0,324	0	0,436	0,0009
edu_fam	0,105	0,387	0,258	0
loan	0,669	0,045	0,877	0
ln(loan value)	0,437	0,001	0,583	0
<i>R-Square</i>	0,127		0,257	

Source: collected data from questionnaire

3. Conclusions and Recommendations

- During a 20-year period, from the moment of creation to today, microfinance services have been able to spread to more than 80% of the country's regions.
- The thesis also argues that by providing affordable financial services to the rural population, microcredit remains to be an important strategic component of development.
- However, it is emphasized that if microcredit is chosen as an inter-policy for reducing the poverty level, it is necessary to set some clear objectives for the indicators of economic empowerment of the population.
- The most important family skills to start an informal micro enterprise can not be the only assumption for improving family income. At this point is necessary to create a policy whose framework promotes growth and expansion of enterprises and the development of rural economy as a whole through the creation of new employment opportunities and an increase in agricultural production. To achieve these objectives, it is necessary to intervene with government policies and promote priorities.
- This recommendation constitutes a call for both private and public partnerships to create an environment where the above objectives, namely poverty reduction, can be met.

In general, there should be a consistent mix of market and non-market policies if their impacts on poverty reduction need to be sustainable and long-term. The existing market structure is very important in defining policy intervention to achieve the target production.

- This study recommends the creation of new microfinance institutions that support their role in accumulation and wealth creation for their clients.

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