



## The Impact of Microcredit Services on the Rural Economy: Evidence from Albania

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**Abstract:** This study's main objective is to explore microfinance services' impact on Albania's rural creditors. Agriculture is turning into an important economic sector for Albania in recent years. This sector is still the basis of income for most of the population and serves as an essential employment source. The Albanian government, microfinance institutions, and other international organizations are jointly undertaking a series of programs and projects to create subsidized loans for rural area residents. This demographic group continually faces challenges. Through an empirical analysis, the research paper aims to assess the impact that microcredit has had on rural areas, the challenges these areas face and analyze some of the elements that may influence the improvement of borrowing conditions in the future. The research was conducted among 384 rural microfinance creditors in a convenience sample who self-administered and completed survey questionnaires. The study showed that microfinance operations had contributed significantly to improving rural creditors' economic and financial conditions and improving living standards and savings for most of them.

**Keywords:** microfinance; rural development; improvement; financial conditions

**JEL Classification:** G23; G21; R51

### 1 Introduction

Albania, in the early 1990s, begins its transition period to a market economy. The country implemented vast structural reforms during those years, including land ownership, capital markets, price liberalization, and privatization of former state-owned companies, such as small and medium-sized enterprises (SMEs),

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telecommunications networks, and the banking sector. Significant investments in infrastructure rehabilitation, especially farmland irrigation, contribute to accelerating economic development. The reforms help boost agricultural production. The Albanian government, microfinance institutions, and other international organizations were jointly undertaking a series of programs and projects to create subsidized loans for rural area residents. In this period, the rural areas are characterized by a non-profitable sector, with large state-owned firms, cooperatives, and agricultural enterprises. At the end of 1992, 77% of agricultural land is privatized. Agriculture transformed into a rural economic sector with tiny farms, mostly family-owned, with outdated technology and poor infrastructure. The fragmented nature of the farms in Albania indicates the low efficiency and productivity of this sector.

From 1990-1992, agricultural credit policy is supportive of a large number of young farmers who had just privatized their lands. There is an excellent potential for agricultural development due to favorable weather conditions, a tradition in agriculture, geographical position, and a competitive labor force. There is also a high demand for Albanian organic products from the European and international markets. Before the global financial crisis, Albania's economy is growing amongst the fastest in Europe, with average annual real growth rates of 6%, coupled with a rapid decline in poverty levels. Unlike countries in the region, Albania maintains growth rates and sustainability. However, after 2008, the average growth rate cuts in half, and macroeconomic imbalances in public and external sectors emerge. The decline in growth is also reflected in poverty and unemployment rates. Recently, in the second quarter of 2019, Albania's official unemployment rate is 11.5%. According to World Bank data, annual economic growth in 2019 is 2.2%, and the forecast for 2020 is -5%. The country's GDP in 2019 is USD 15.279 billion, and the GDP per capita is \$5.353, qualifying as a middle-income country.

Albania's population is 2.85 million. There was a vast demographics movement from rural to urban areas and emigration abroad in the last decades. Around 45% of the population lives in rural areas. The significant urban population is concentrated in the bigger cities like Tirana and Durrës. Due to economic reasons, there is a vast number of Albanian citizens live abroad. Poverty strikes mostly rural areas. Based on World Bank data, the poverty headcount ratio at national poverty lines (% of the population) reduced from 25.4% in 2000 to 14.3% in 2000. Between 2002 and 2008, poverty in the country falls to 12.4%. Poverty is still widespread throughout the country and rising again in 2012, with a population level of 14.3% living below 60 USD income per month. The country is amongst the poorest in Europe, even though in June 2014, it becomes a candidate for EU accession. The poverty level considerably impacts investments in agriculture, livestock, and other related sectors. In rural areas, poverty is more significant due to a lack of infrastructure, employment, and reduced remittances. An essential aspect of the Albanian economy

is many incoming remittances from Albanians who have emigrated abroad. The global crisis of 2008 caused a reduction by more than 15% in the remittance flows, and the trend is still the same nowadays. Remittances denote a meaningful financial contribution to the Albanian rural economy by absorbing about 30% of its total inflow.

**Structure of the paper:** Section 2 discusses the microcredit development in rural areas in the last years. Section 3 reviews the theoretical literature on the impact of microfinance in rural areas. Section 4 explains the research methodology, analysis and results, and discussion. Section 5 gives the conclusions of the study and some recommendations.

## 2. Microcredit Development in Rural Areas

Microfinance is seen as a financial structure that allows small businesses to increase profits over the last decades through practical actions and sustainable activities. The sustainability of microfinance relies on government funding, loans, incentives, and the involvement of foreign and non-governmental organizations and financial institutions. The environment in which it functions is determined by the strategic region's investment policies, financial and monetary administration, and financial institutions' strategies. One of the main concerns of people in rural areas is the lack of employment opportunities. Many rural people depend on working agricultural land or engage in livestock. A few of them work on casual jobs or are formally employed in other businesses or micro-enterprises created by themselves. Microenterprises usually run from 1-9 employees. They include any income-generating work such as agricultural product trading and processing, livestock, artisan, and construction activities. Start-up capital needed to open such small businesses is found primarily from borrowing money from their family members, friends, or local lenders. Traditional banks usually reject small business loans in rural areas because such loans are unsecured. They do not justify the higher costs. Salko (2001) and USAID (2005) provide factors that simultaneously limit the supply and demand for finance in rural and agricultural areas.

- Small loans have comparatively high rates for lenders and creditors.
- Small farms' size and inadequate profits prohibit the absorption of structured investments in the agriculture and associated sectors.
- Loans have high-interest rates (due to very high credit risk premium).
- Lack of collateral (long term assets, uncertain property rights, and lack of preference of banks in Albania to use it as collateral);
- Insufficient formal capacity (poor governance and operating systems, low staff, and poor management skills);

- Increasing risks related to the portfolio of agrarian activities and products that are more dominant in the area;
- Lack of banking infrastructure in the rural sector manifests itself in the non-extension of banks' activity.
- Banks do not engage in agriculture crediting because they see farms as a discontinuous and not very stable base on the fact that there is a tendency of rural families to relocate to urban areas;

Albania is one of the first countries in Southeast Europe to launch microfinance programs in the early 1990s, primarily focusing on rural areas. The support of foreign donors and the government's severe involvement in its early days provide a platform to recognize the microfinance sector as a critical element of financial markets. Initially, two innovative projects are launched by the Albanian Development Fund (ADF) and the World Bank:

- Rural financing project that later transforms into Savings and Credit Unions
- Urban Financing Project, which in 1999 changes into a Microfinance Institution (BESA Foundation)

Among the most critical financing projects for this period is 1. the World Bank for regulating the agricultural credit system 2. the European Bank with the Phare project 3. the German Development Bank with its International Fund for Rural Development. It is worth mentioning that the Mountain Development Fund was among the first financial companies operating in mountainous and rural areas. The institution changed the name in 2006 to the first Financial development company and again in 2019 to Agrocredit. Some of the problems faced by formal bank credit provision in rural areas were the lack of documentation related to land ownership, a high degree of informality, inadequate road infrastructure, and the still unstructured private economy. Being the heir of the Albanian government fund, the mission of this non-bank financial institution is twofold. The social mission is related to providing the necessary financial resources for further development and to provide growth for 365 thousand agricultural and livestock farms and over 50 thousand operators operating in rural and suburban areas. The financial mission is related to the performance of the institution trying to be profitable<sup>1</sup>

Over the years, the financing of rural areas in Albania has not received due attention from financial institutions, leaving most agricultural producers without the necessary and appropriate financing sources. Referring to the reports provided by the Bank of Albania, non-bank financial institutions hold the main weight in the provision of financial products in rural areas. They provide services for 90% of the financing of rural and suburban areas while banks 10%. Only 4% of the bank loan portfolio goes

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<sup>1</sup> <https://www.agrokredit.al/>

to finance rural development. The provision of rural credit services is of great importance, given the broad contribution that this sector has to the country's economic development. Existing machinery is deemed as inadequate and limited in supporting the need for the recently created small farms. During this time, loans are only approved for individuals in small amounts, the largest being \$1,000. Almost 70% of the loans are approved towards farmers with livestock. Savings and Credit Unions' creation is regarded as the oldest and leading rural financing structure. Rural residents are their clients and, at the same time, become union members. The loan methodology is based on how financial cooperatives function lending to individuals or a group of farmers. FED Invest and Savings and Credit Unions differ from other financial institutions in four ways:

- 1) Low loan interest rates and higher savings interest rates as well as pre-approved lending procedures;
- 2) Almost 30 years of experience in long term financing for rural areas;
- 3) The presence of 800 members in Savings and Credit Unions, selected by rural residents, farmers, and entrepreneurs;
- 4) It is offering technical assistance to all union members.

### **3. Literature Review**

The most basic theories regarding microfinance's impact assume that their client is the sole owner of profitable activity, with production forced by a high marginal cost of credit concerning marginal returns or a lack of capital. Thus, access to "free" capital with relatively lenient restrictions allows for an increase in production, revenues, net income, and, subsequently, the borrower's wellbeing (de Mel et al., 2008, Duvendack et al., 2011). Microfinance providers' impact on the general population may vary depending on the range of services they provide. These institutions can either offer microcredit and compare it to various other forms of support. They can offer further financial services like micro-savings, remittance services, transaction payment services, and microinsurance. Duvendack et al., 2011; Karlan and Goldberg, 2011; Balkenhol and Guézennec, 2013; Banerjee et al., 2015, suggested that microfinance programs theoretically provided by microfinance organizations will directly impact participants and, more generally, affect income and household consumption. Copestake (2001) showed that an essential element influencing microcredit is the experience gained from using the microloan. Hence, borrowers who received two loans had higher average business growth and household income. In a report study in Bosnia, Augsburg (2015) concludes that microcredit increased self-employment and decreases the wing's work, raising income following the original microcredit concept to encourage entrepreneurship.

Crépon et al. (2011) measured the impact of a microcredit program in Moroccan rural areas using a randomized experiment. The study shows that increasing access to credit expands the scale of existing household self-employment activities for non-livestock agriculture (henceforth, agriculture) and livestock activities. There is also an increase in agricultural sales and profits. Dhakal (2016), in a study in Nigeria, found that microfinance activities increased the income and expenditures of farmers and has supported improving the socio-economic status by creating employment opportunities.

They exist debates regarding the microfinance role and contributions to saving mobilization in low-income rural households. Robinson (2001) found that low-income rural households, especially in Africa, cannot save because they are too low. Even if they have more income generated from microcredit usage, they still tend to spend it on consumption or social ceremonies. Nwankwo found an increase in savings and investments, which may eventually enhance people's living standards.

The 2011 European Union (EU) 'Rural Review' publication highlights three categories of barriers affecting rural entrepreneurship:

- 1) small property size, low population density, and inaccessibility of rural communities
- 2) the social and economic structure of rural communities
- 3) the internal and external linkages nature strongly impacts rural business initiatives.

Microfinance is emerging as an influential tool to support and empower rural entrepreneurs. Providing microfinance services can help entrepreneurs prevail rural development challenges by supporting their businesses and improving the local economy. According to Consultative Group to Assist the Poor (CGAP), rural microfinance involves providing financial services such as savings, loans, transactions, and insurance to individuals, families, and businesses (farming or not). Some of the other elements that finance agriculture and agro-processing are raw material supply, production development, distribution, wholesale markets, agro-processing, and marketing. For example, the high risk associated with agriculture loans means greater importance in customer review and monitoring. Therefore, transaction costs will be higher for both client and institution. Costs are intensified by the broad client base distribution and small loan sizes. Marku (2016), in her dissertation thesis, shows that an integrated approach of microcredit institutions can increase microfinance's effectiveness as a poverty alleviation tool. Muharremi et al. (2016) show that gender inequality exists in Albania and is higher in rural areas. Through different programs and policies, the government has tried to improve women's status and promote gender equality. However, the country still has many challenges in fully applying the women's potential in the labor market and economy,

higher participation in decision-making, and reducing the extensive violence against women, particularly in the family dominion.

#### 4. Methodology

The empirical research on the impact assessment of microcredit in Albania's rural areas and its uses will be based on statistical methodologies such as questionnaires. Respondents are former or current clients of MFIs and banks operating in these areas. We collected data from June - November 2019. This study's population refers to individuals over 18 years of age, the age limit of which an individual can apply for a loan. Individuals with microfinance activities experience are selected because they are much more informed and can better reflect the questionnaire. Part of the questionnaire were also borrowers in the first microcredit cycle but have not yet benefited.

##### 4.1 Demographic Information from the Questionnaires

**Table 1. Demographic data of the respondents**

Variable	Studied Group	Frequency	Percentage
<b>Age (years)</b>	18-25	9	2.3%
	26-30	62	16.1%
	31-40	110	28.6%
	41-50	138	35.9%
	51-60	57	14.8%
	>60	8	2.1%
	<b>TOTAL</b>	<b>384</b>	<b>100%</b>
<b>Sex</b>	Female	152	39.5%
	Male	232	60.5%
	<b>TOTAL</b>	<b>384</b>	<b>100%</b>
<b>Education</b>	Middle School	51	13.3%
	Vocational High School	76	19.8%
	General High School	133	34.6%
	Bachelor and Master	124	32.3%
	<b>TOTAL</b>	<b>384</b>	<b>100%</b>
<b>Marital Status</b>	Single	50	13.0%
	Married	298	77.6%
	Cohabiting	24	6.3%
	Divorced	9	2.3%
	Widowed	3	0.8%
	<b>TOTAL</b>	<b>384</b>	<b>100%</b>

*Source: Questionnaire Data; Author's work*

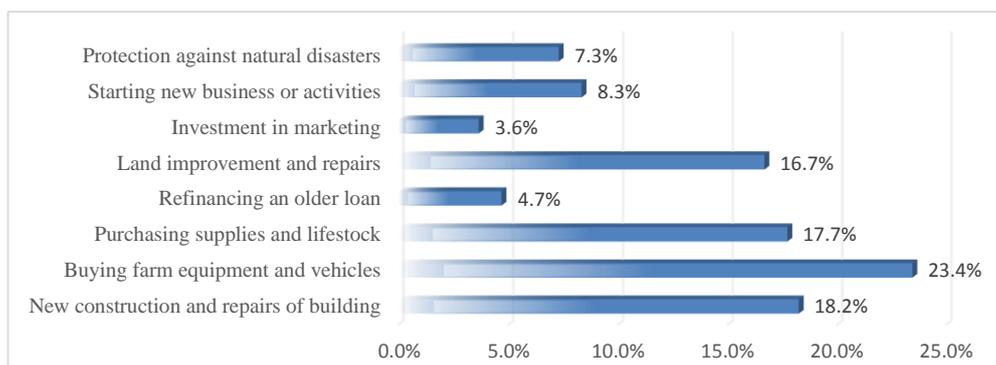
Table 1 provides information on the general character of the questionnaire respondents. Regarding the age distribution of microcredit borrowers, the

majority, 35.9% of the respondents, are between 41-50 years old, followed by 28.6% in the category 31-40 years old. Respondents are also classified in terms of education. The education level can affect their employment, provide for their families, and manage household and business finances. In this survey, 34.6% have a general high school diploma, and 32.3% have higher and postgraduate education.

Regarding the gender distribution of the respondents, 39.5% are females and 60.5% male. Most of the respondents (77.6%) are married, 13% are single, 6.3% cohabiting, 2.3% are divorced, and 0.8% are widowed. The agricultural sector brings about many problems and challenges. Not all farmers can apply for a loan due to a variety of requirements. The lack of infrastructure and the natural factors to which agricultural production is susceptible (floods, frosts, rains, earthquakes) make the credit risk challenging to measure and fully evaluate. Banks and other financial institutions currently provide services to only 25% of potential customers worldwide. Poor communities remain poorly served; farmers and workers without collateral have difficulty accessing traditional institutions' financial services. One of the first questions was to identify the credit institutions' selection determinants. The respondents selected the three most important factors from a list. The majority of them, about 44%, mentioned the lower borrowing costs, rates interest, and transaction costs, 22% attribute the importance of selecting the required collateral, 19% long, and complicated procedures. 6% said that the time for disbursing the loan was too short for the conditions in which they were. Among other factors that they believed to lower importance were the physical proximity with the microfinance institutions or bank, the quality of services provided, and the availability and mentoring level from the finance institutions.

Graph 1 shows how borrowers use microcredit. 17.7% of respondents use loans for purchasing supplies and livestock, inventory, planting products/seeds. 23.4% purchase manufacturing equipment; 18.2% invest in real estate, purchase new space or renovate existing buildings. 16.7% invest in land improvements like new irrigation systems, land leveling, land removal, reservoirs, irrigation ditches, dams, and pavement; 7.3% use loans to fix damages caused by previous natural disasters. Investing in new businesses and activities accounts for 8.3%, mostly farmers investing in other service activities such as agro-tourism or restaurants and agro-processing of fruits or vegetable products. Only a small proportion of domestic production is agro-processed in Albania, which accounts for only 8% of GDP and

employs 5% of the national workforce. The amount of microfinance loans available is primarily invested in technology, machinery, and inventory. Consequently, it positively impacts output growth.



**Graph 1. Use of microcredit loans**

*Source: Survey data. Author's work*

## 4.2 Hypotheses and Empirical Analysis

### First Hypothesis

The null hypotheses  $H_0$  and  $H_1$  are constructed to measure microfinance services' impact on improving rural areas' business, financial and economic conditions.

- $H_0$ –Microfinance services have no impact on improving rural business financial/economic conditions.
- $H_1$ –Microfinance services impact the improvement of the rural business financial/economic conditions.

The Chi-square test is applied for two reasons: (1) to study whether there is a link between improving the business economic and financial conditions of rural residents from using financial services; and (2) to study whether there is a relationship between factors and are independent.

**Table 2. Microcredit services impact on business financial/economic condition**

		MFI and banking loan impact					Total
		Very Low	Low	Medium	High	Very high	
Business Financial/economic impact	Increase/ improved	31	16	87	126	61	321
	No essential change	2	6	19	11	3	41
	Decrease/ Reduced	1	5	4	2	10	22
	N of Total Counts	34	27	110	139	74	384

**Table 3. Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.452 <sup>a</sup>	6	.045
Likelihood Ratio	5.789	6	.156
Linear -by-linear Association	.05	1	.872
N of Valid Cases	384		

<sup>a</sup>. 5 cells (33.3%) have an expected count of less than 5.

**Table 4. Symmetric Measures**

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T. <sup>b</sup>	Approx. Sig. <sup>a</sup>
Nominal by Nominal	Contingency Coefficient	.089			.045
Interval by Interval	Pearson's R	-.012	.04	-.243	.086 <sup>c</sup>
Ordinal by Ordinal	Spearman Correlation	.0089	.038	.34	.082 <sup>c</sup>
N of Valid Cases		384			

<sup>a</sup> Not assuming the null hypothesis.

<sup>b</sup> Using the asymptotic standard error assuming the null hypothesis.

<sup>c</sup> Based on normal approximation

The chi-square test results in Table 3, where Pearson chi-square is 0.045, which is lesser than the tabulated value of p (0.05); hence, the null hypothesis is rejected. This result confirms that micro-financial services affect the business and economic-financial conditions of the rural borrowers improving them.

## Second Hypothesis

We evaluated the impact that microcredit has on household-based on three elements; an improvement in living standard and wellbeing, an increase in expenditure in long term assets, and an increase in saving.

First, the improvement of living and welfare standards has an average of 3.59, which indicates a favorable agreement where 207 borrowers agree that there have been improvements after receiving the microcredit. In recent years, in many rural areas, the Albanian government has made investments and interventions in road infrastructure and the field of water supply and

sewerage. To realize the regular supply of drinking water and improve the sewerage network to increase the inhabitants' quality of life and sustainable development. There have also been interventions to normalize the energy situation throughout some rural areas. Most of the borrowers used the business income generated from microcredit to purchase short term assets or improve house conditions.

**Table 5. Impact on the household**

		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	Total	Mean
Living standards	Frequency	12	34	131	128	79	384	
	Percentage	3.1	8.8	34.1	33.3	20.5	100	3.59
Expenditure in long term assets	Frequency	67	193	11	67	46	384	
	Percentage	1.74	50.2	2.8	17.4	11.9	100	2.56
Savings	Frequency	6	49	163	104	62	384	
	Percentage	1.5	12.7	42.4	27	16.1	100	3.43

*Source: Survey data. Author's work*

In the same way, to make their lives convenient, borrowers use the available modern technologies, TV, telephone, internet. The second question is related to microcredit's impact on purchasing long-term assets such as construction plots, agricultural land, or new buildings' construction. The average, in this case, is 2.56. Most respondents, about 52%, do not think that microcredit has impacted the purchase of long-term assets for their families.

Savings have increased for 166 respondents, while a large number around 163 are confused/undecided. 14.2% stated that the microcredit had not impacted their savings, and 43.1% agreed with a positive impact on savings. Usually, the rural borrowers save in bank deposits or keep savings at home, and a significant part reinvests their savings. The mean for this question is 3.43. Many authors have noted that borrowers' lack of financial education is a significant barrier to credit demand factors. Family behaviors and habits are essential, especially concerning savings and decisions related to credit resources allocation. Albanian tradition and culture see saving as an essential element to be used if there is a necessity for family or health needs.

### Third Hypothesis

We created four assertions to evaluate and understand some of the elements that influence the borrowing process and choose the appropriate MFI institutions to apply for a loan from rural creditors. They are the distance between the rural zones and MFI branches, interest rate of loans, procedures difficulties (required financial documents, collateral, hidden application costs, prices, interest rates). To thoroughly examine the number of assertions, we created null hypotheses and alternative hypotheses and the significance level for rejecting or accepting the hypothesis. The individuals who completed the questioners indicate their perceptions on the following statements using the 'Likert Scale' 1 = strongly disagree and 5 = strongly agree.

- **A1:** The borrowing process is complicated due to procedures and travel distance from MFIs.
- **A2:** Non-financial services such as financial education, operational assistance, monitoring, and the establishment of MFI service centers are essential for farmers.
- **A3:** The procedure for obtaining loans from MFIs is more comfortable than from traditional banks
- **A4:** Interest rates on microcredit loans are low and reasonable.

Table 6 below provides descriptive statistics regarding the four assertions.

**Table 6. Statistical indicators of descriptive factors**

	<i>A1</i>	<i>A2</i>	<i>A3</i>	<i>A4</i>
<b>Mean</b>	3.27	3.55	3.10	2.18
<b>Median</b>	3	4	3	2
<b>SE Mean</b>	0.05	0.04	0.05	0.04
<b>LCL Mean</b>	3.21	3.50	3.04	2.14
<b>UCL Mean</b>	3.32	3.60	3.15	2.22
<b>Skewness</b>	-0.05	-0.26	0.08	0.43
<b>Kurtosis</b>	-0.63	-0.51	-0.84	0.10

*Source: Survey data. Author's work. RGui Software*

To examine statement **A1**: "The borrowing process is difficult due to procedures and travel distance from MFIs," a "t-test" is developed to check the level of people's satisfaction in obtaining MFI loans. Hypothesis:

- $H_0$ : The borrowing process is not complicated due to procedures and travel distance from MFIs.
- $H_1$ : The borrowing process is complicated due to procedures and travel distance from MFIs.

Analyzing the sample statistics data for this hypothesis in Table 7 concludes that the null hypothesis will be rejected because the average level of assertion on loan procedures is 3.27 and is statistically significant. Also " $p$ -value" = 0.000 <  $\alpha$  = 0.05. In cases where the " $p$ -value" is less than  $\alpha$ , the  $H_0$  hypothesis is rejected, and the alternative hypothesis  $H_1$  is accepted.

**Table 7. A sample statistic**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
A1	384	3.27	1.059	.054
A2	384	3.55	.941	.048
A3	384	3.10	1.141	.058
A4	384	2.18	.839	.043

Source: Author's work. SPSS stats software

**Table 8. Sample "t-test," hypothesis A1-A4**

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
A1	5.010	383	.000	.271	.16	.38
A2	11.500	383	.000	.552	.46	.65
A3	5.700	383	.030	.099	-.02	.21
A4	-19.028	383	.000	-.815	-.90	-.73

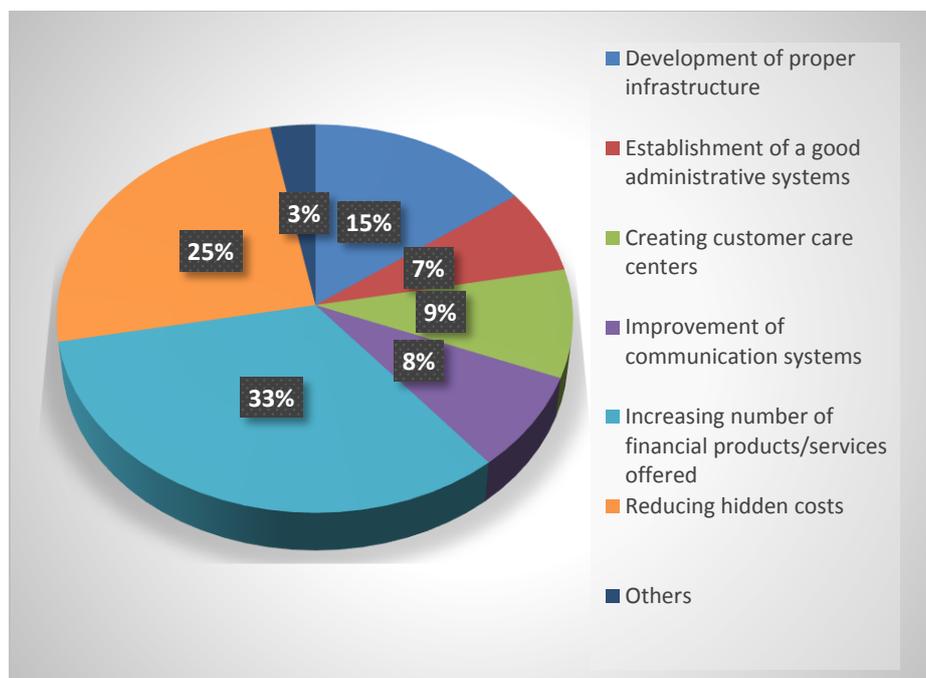
Source: Author's work. SPSS stats software

Further examining the A2 assertion, a hypothesis on the importance of non-financial services is build:

- $H_0$ : Non-financial services such as financial education, operational assistance, monitoring, and the establishment of MFI service centers are not essential for farmers.
- $H_1$ : Non-financial services such as financial education, operational assistance, monitoring, and the establishment of MFI service centers are essential for farmers.

The average perception of the individuals that completed the survey for this assertion is 3.55. Simple t-test statistics show ' $t$ -stat' = 11.5, ' $p$ -value' = 0.000 and confidence level 5%.  $H_1$  hypothesis is accepted. From a practical point of view, the result indicates that respondents agree that operational assistance provided by MFIs (or if offered) is useful to run and develop their businesses. The result is important and should encourage MFIs to provide more business development consulting services. Graph 2 provides the survey responses

regarding individuals' suggestions for microfinance and banking services improvements for rural areas.



**Graph 2. Improvement suggestions for microfinance and banking services**

*Source: Survey data. Author's work*

Suggestions:

*An increasing number of financial products/services offered:* Most interviewees hope banks will expand the range of products and services, like electronic banking products suitable for farmers. Based on their educational level, mainly creditors located in rural areas away from bank branches see electronic channels as an excellent solution to conduct their routine banking activity to transfer electronic payments or bank account status information.

*Reducing hidden cost:* The rural creditors believe that, during the initial phase of the loan application, there is a lack of transparency and detailed information on service costs, interest rates, and credit duration.

*Development of proper infrastructure:* One of the critical elements is the distance between farmers and bank branches in urban areas. Many residents living in remote mountainous areas or a lack of modern infrastructure find it challenging to apply for loans and get the right advice from loan officers. Loans for agriculture enterprises require a physical presence in rural areas.

*Improvement of communications systems:* Farmers require MFIs or banks to contact them, providing up-to-date and detailed information on the financial services they provide.

*Creating customer care centers:* An essential element for farmers is creating customer service centers, which would create a better connection between them and the employees and increase the bank employee's technical knowledge on their specific activities.

*Establishment of a good administrative system:* The creditors indicated that smaller banks or MFIs that offer rural loan products could have critical type-specific underwriting criteria or specifications within the general loan policy. The documents required in the borrowing process for rural creditors must be presented clearly and understandably.

The fundamentals of expanding credit, including character (integrity), capacity (sufficient cash flow to service the obligation), resources (net worth), liquidity (assets to cover the debt), and criteria (sufficient cash flow to service the obligation), should be discussed in the review of every borrowing request, irrespective of whether policy subscription specifications are included (borrower and the overall economy (Adams 2015).

Further examining the **A3** assertion, a hypothesis based on loan procedures comparison between MFIs and traditional banks is built:

- $H_0$ : The procedure for obtaining loans from MFIs is not more comfortable than from traditional banks
- $H_1$ : The procedure for obtaining loans from MFIs is more comfortable than from traditional banks

Statistical analysis shows that the '*t-test*' for the "MFI Procedures" statement is 5.7, and the significance level is 0.05. The '*p-value*' is less than the significance level since the '*p-value*' is 0.03. So, the null hypothesis will be rejected, and the alternative hypothesis accepted. The banking sector evaluates agricultural business loans as high risk because they usually lack financial and managerial documentation, have property documentation problems, lack collateral and seasonal productivity. Banks demand more financial stability, more financial information, and performance-related information of business and investment plans where this investment will be used. The lending process in rural areas has a high cost to make banks less willing to initiate high-cost procedures for small amounts.

Assertion **A4** raises the question of the interest rates on microcredit loans are low and reasonable. Another hypothesis is built to test the assertion:

- $H_0$ : There are no differences in borrower satisfaction with the terms of the microcredit interest rates and the average level of satisfaction
- $H_1$ : There are differences in borrower satisfaction with the terms of the microcredit interest rates and the average level of satisfaction.

Referring to the data calculated in table 7, '*t-test*' = -19.028 and '*p-value*' = 0.000, the null hypothesis  $H_0$  will be rejected since '*p-value*' <  $\alpha$ . The result can also be distinguished because the average sample statistic is 2.18, less than the average 2.5. In conclusion, individuals have a lower level of satisfaction with interest rates than the average level, so the interest rates on microcredit loans are considered high for most of them.

## 5. Conclusions and Recommendations

Lending opportunities are still limited only to a small part of the rural population, mainly because banks do not believe that the rural economic and financial preconditions are acceptable to expand their agricultural loan portfolios. Banks target the agricultural sector for no more than 2% - 5% of their loan portfolio due to the high-risk level. In recent years, Albania's microfinance is increasing its weight with the financial sector, thanks to donor support upon creation and government involvement in hedging credit risk. Microfinance, which accounts for more than 10% of the rural population, turns into a development engine for the economy through lending to micro or small farms. Agriculture is a vibrant sector of the economy, promoting growth and job creation and helping the most vulnerable people in the labor market. The study results confirm that microfinance positively affects rural creditors' economic and financial conditions based on living standards improvement and saving increases. Albanian government data indicates that microcredit provision in rural areas is a significant development opportunity since every new micro-credit loan creates 1.4 new jobs. We evaluated that the microfinance services positively impact the living conditions and household saving. However, their impact on household long-term assets expenditure is low.

Based on survey respondents' suggestions, we recommend that MFIs develop partnerships and alliances with public and private institutions to facilitate more excellent distribution and delivery of different services while providing better rural customer conditions. Collaboration between the government and non-government organizations, partnering with commercial banks, or developing new alliances, including new stakeholder groups from the rural population, may help achieve better care of rural entrepreneurs' needs. Numerous problems related to land ownership and the informal rural economy-level make the demand for improving the MFIs legislation necessary. The regulatory framework truly reflects the social dimension of this activity.

MFIs must develop flexible products and services personalized to rural farmer's/entrepreneurs' needs to spreading microfinance in rural areas. A short time of loan processing and approval, fast and straightforward application procedures, flexible disbursements, repayment methods allow MFIs to be more attractive for the segment of clients with not very high income. However, often short-term loan terms are not very favorable to farmers.

The loan officer's knowledge and skills are very vital in the farming lending process. The loan officers need continuous training to engage better and to improve the mentoring level for the farmers. Equally essential is the analysis and in-depth knowledge of rural customers' concrete financial needs to be served as best as possible.

Microfinance institutions' involvement is essential in rural areas due to new technologies, reforms, and technical advancement that they can provide. The use of technology lowers the expense of loans, so technical advancement in MFI operations works as an incentive to reduce the high cost of transport and connectivity in these areas.

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