



UNIVERSITETI KATOLIK
ZOJA E KËSHILLIT TË MIRË



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MICROCREDIT GOVERNANCE EFFICIENCY: ALBANIAN JOB

Emiljan Karma, Klodian Muço, Mauro Gianfranco Bisceglia

Jean Monnet Module – "Microcredit in Albania, an instrument of
social cohesion within the EU context" MAISCO - EU



RESEARCH OBJECTIVE

- Assessment of the financial and social efficiency of microfinance sector in Albania.
- Trade Off between financial efficiency and social efficiency.
- Achievement of efficiency objectives in the pandemic situation.
- Identification of (in)efficiency determinants.



MICROFINANCE FOR LOANS

Microfinance for loans (i.e., microcredit) is the provision of small-scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to low-income clients for self-employment, often with the simultaneous collection of small amounts of saving.

WORLD BANK

Microfinance tends to focus on serving poor people and as such has been promoted as a powerful solution in the fight against global poverty.



EFFICIENCY DIMENSIONS

FINANCIAL EFFICIENCY

SOCIAL EFFICIENCY

A.

EVEN THOUGH THE PRIMARY GOAL OF MFIs IS TO ENABLE ACCESS TO FUNDS FOR LOW INCOME POPULATIONS (**SOCIAL EFFICIENCY**), THEY WILL NOT BE ABLE TO ACHIEVE THAT GOAL WITHOUT SUSTAINABLE PROFITABILITY (**FINANCIAL EFFICIENCY**). MFIs MUST BE EFFICIENT IN BOTH ASPECTS.

B.

EMPIRICAL RESEARCH STUDIES EXPLORE

- B.1. THE EFFICIENCY LEVEL ON TWO DIMENSIONS;
- B.2. THE TRADE OFF BETWEEN SOCIAL AND FINANCIAL EFFICIENCY;
- B.3. THE CAUSES OF MFIs (IN)EFFICIENCIES.



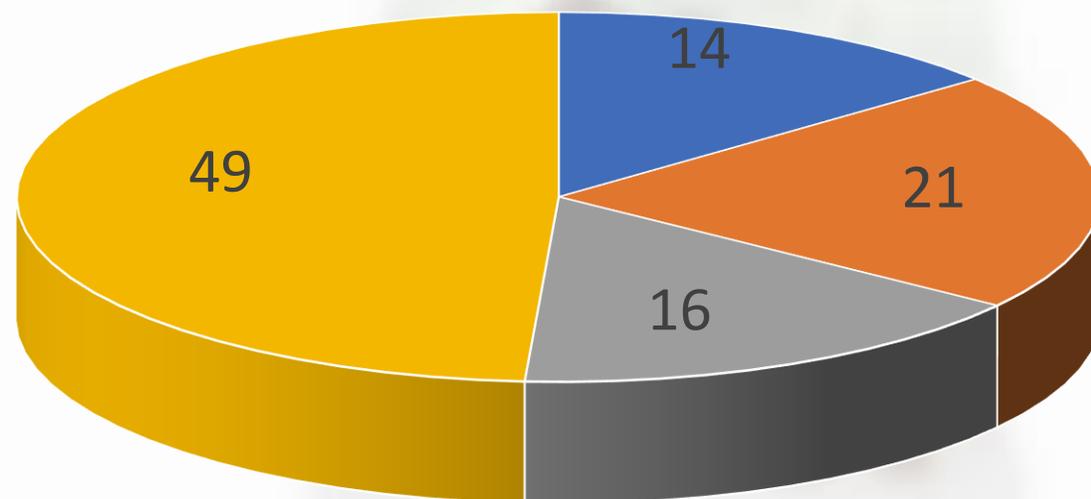
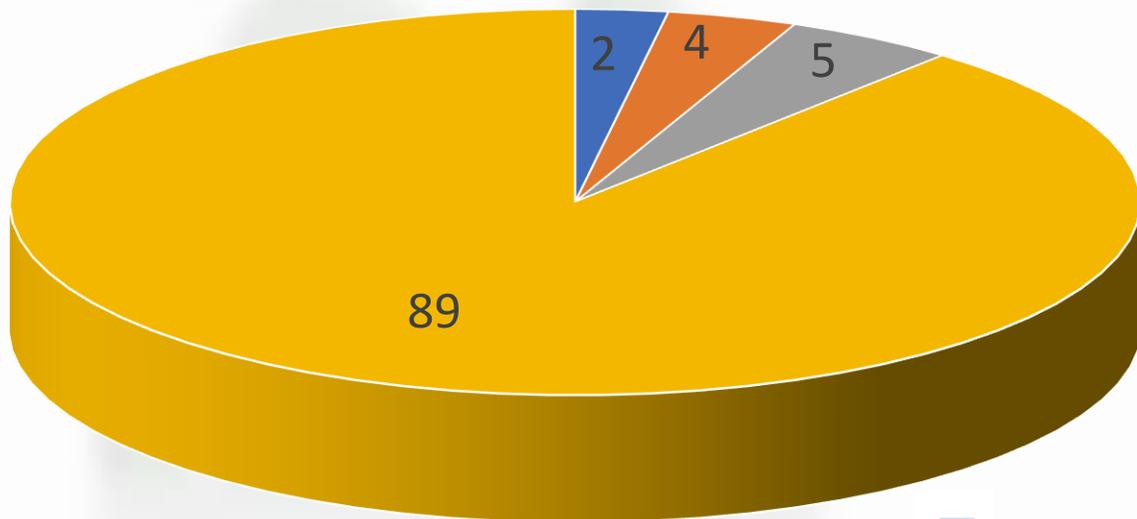
FINANCIAL MARKET IN ALBANIA



Source: BoA, AFS



STRUCTURE OF FINANCIAL SECTOR AL vs EU



-  Insurance market and pension funds
-  NBFI
-  Investment Funds & SLA
-  Banks

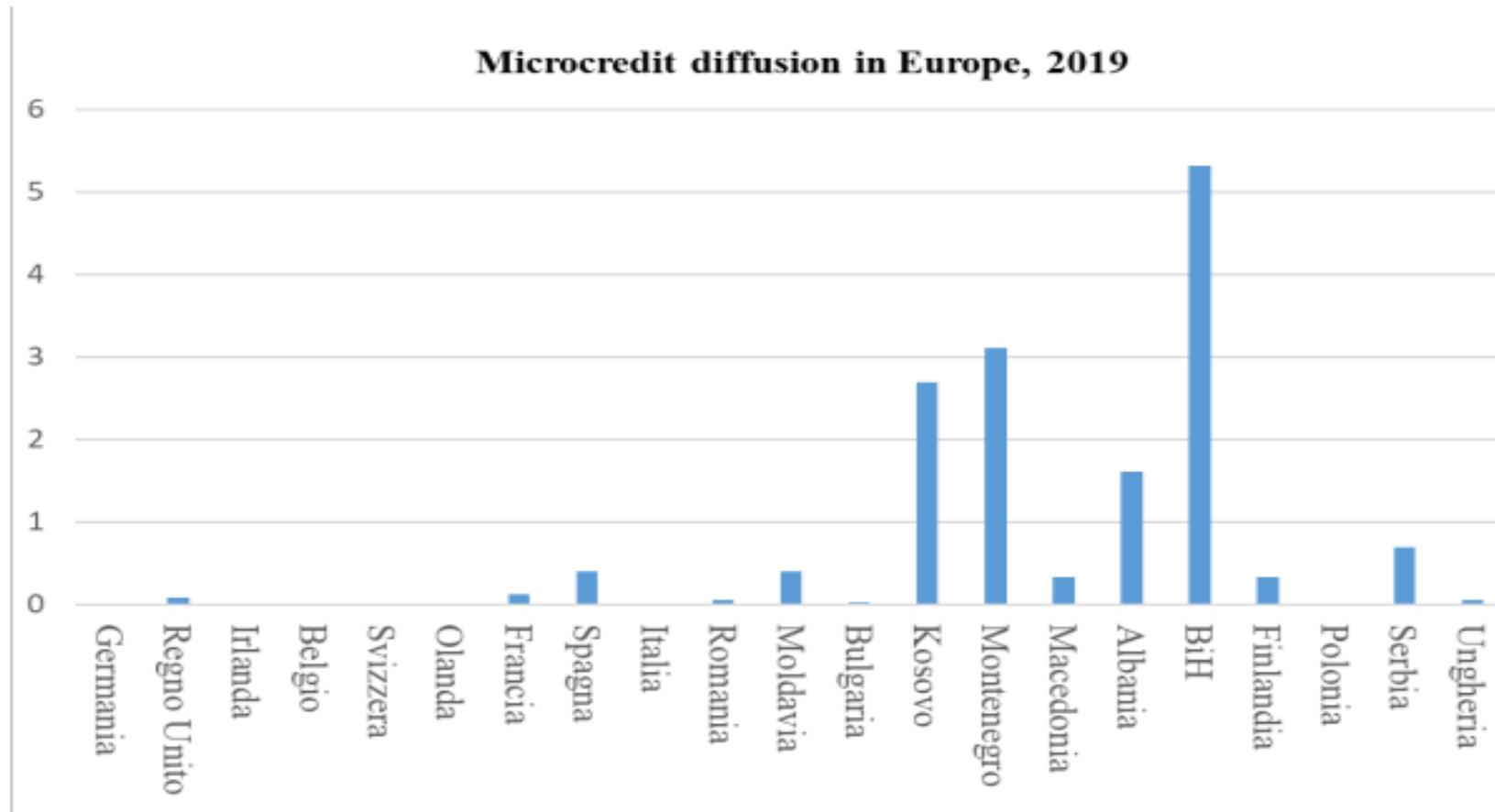
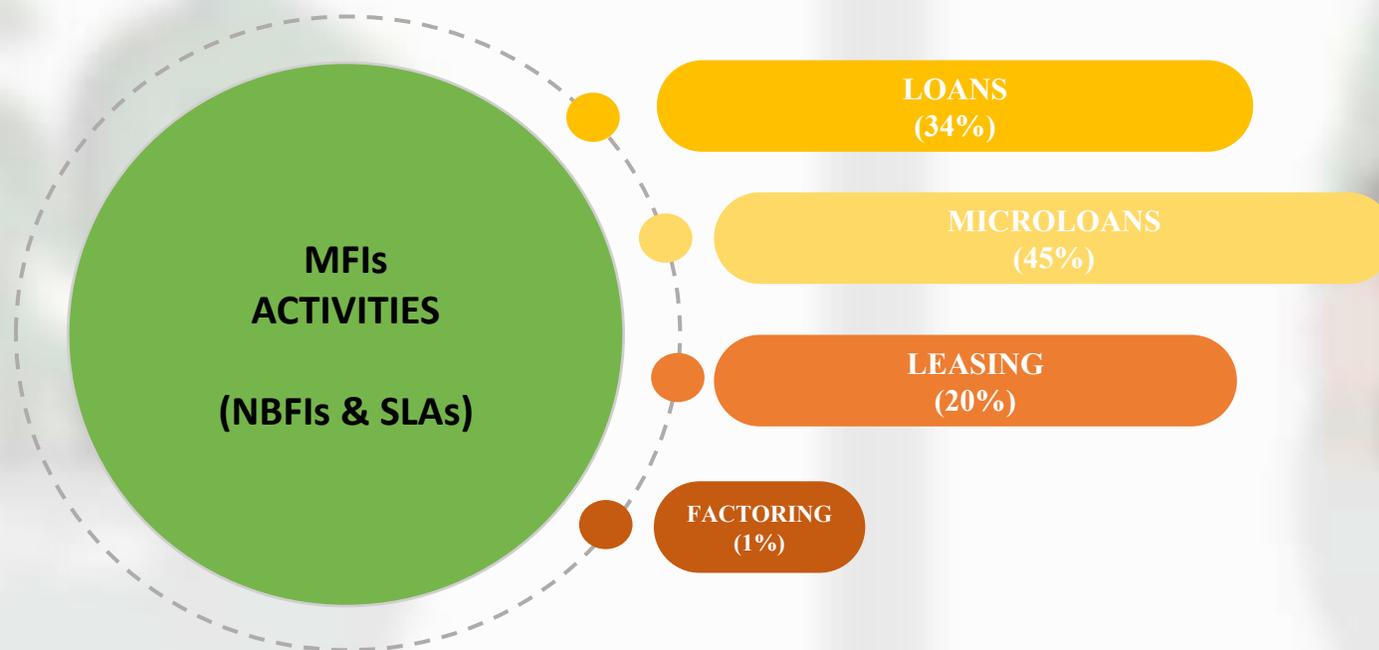


Figure 3. Diffusion of microcredit (active borrowers / population), 2019

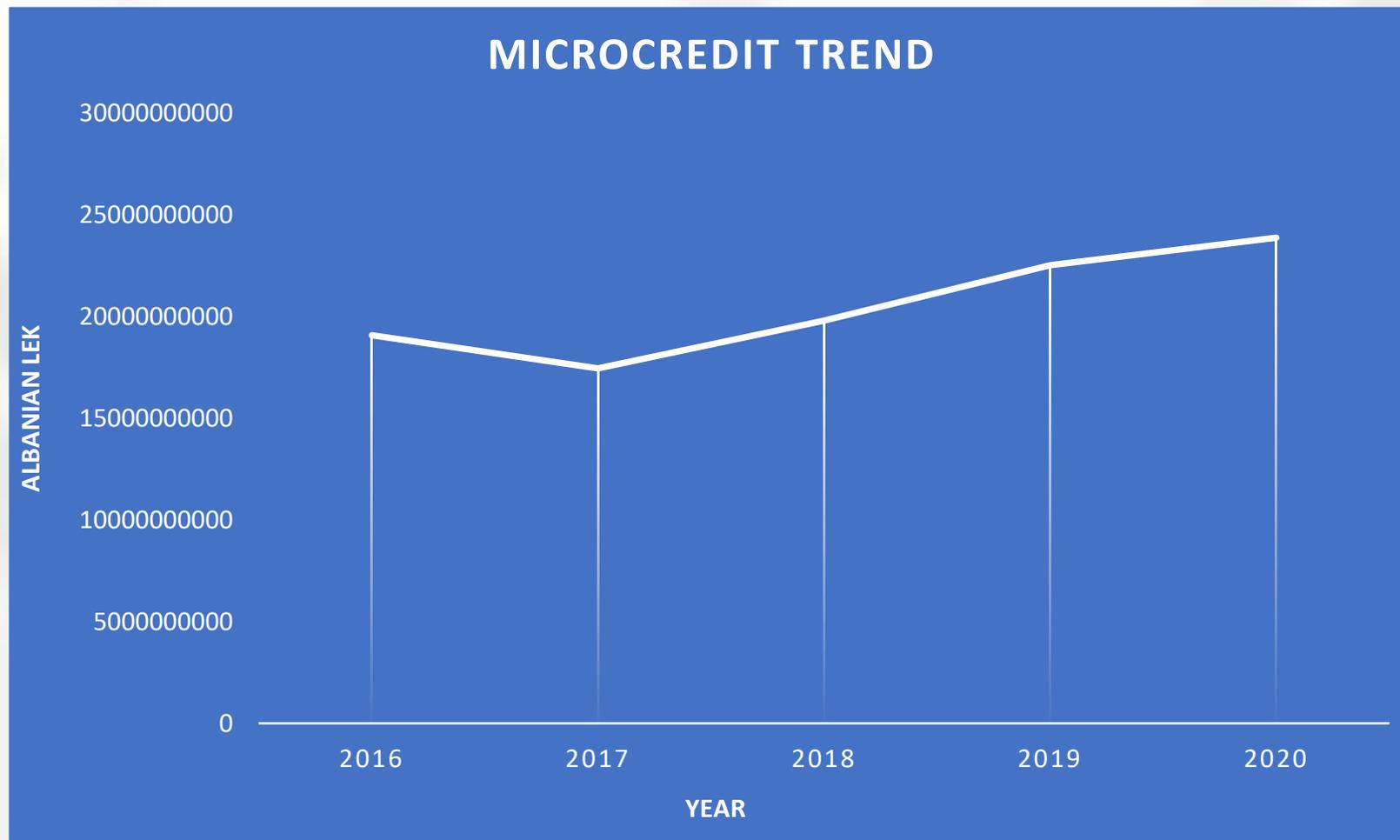
Source: EMN, 2020



ACTIVITIES OF MFIs



Source: BoA, AFS, 2020



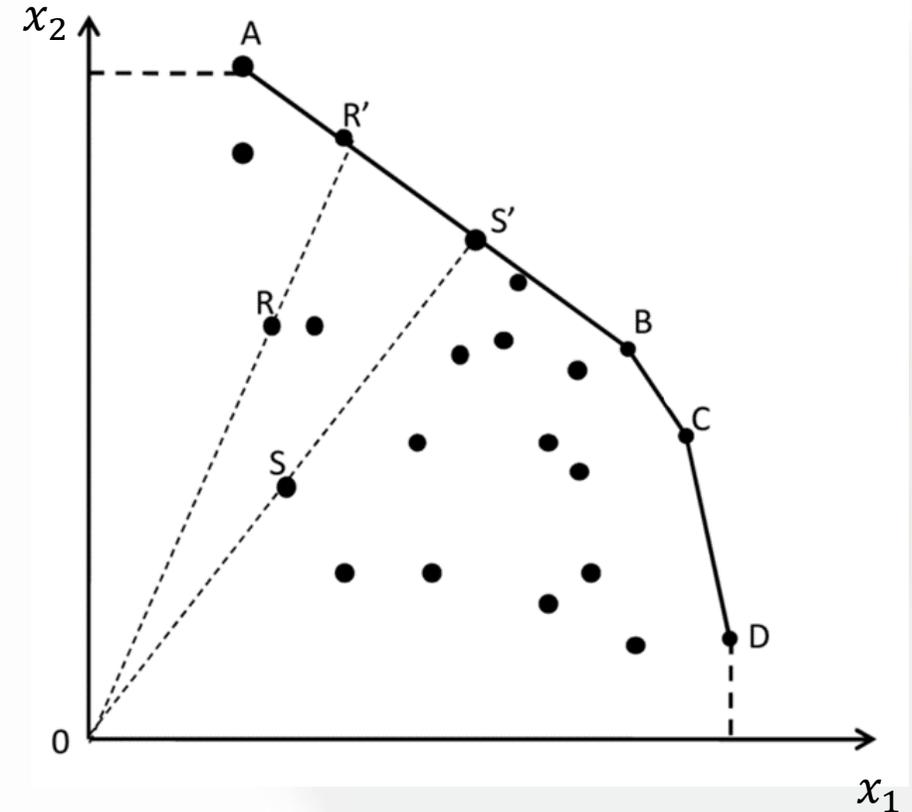
Gross Loan Portfolio Trend in Albania, source: BoA, 2020



METHODOLOGY AND DATA

✓ DATA ENVELOPMENT ANALYSIS (DEA)

- non parametric method
- relative efficiency analyze
- forms a linear production envelope (frontier)
- The DMUs (decision making units) that lie on the frontier are the best-practice units or benchmarks





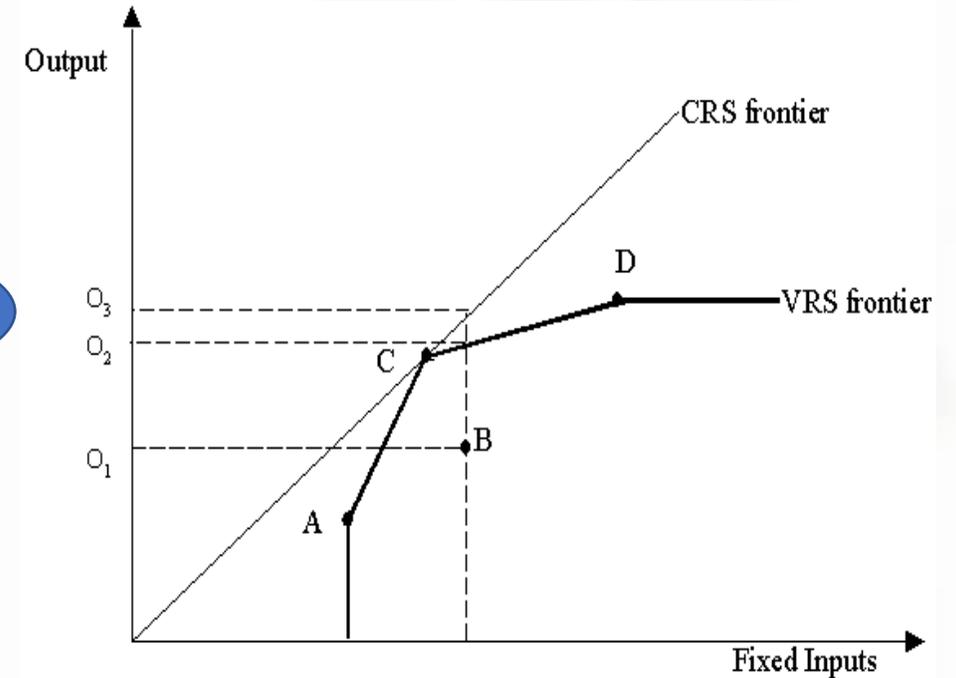
DEA

INPUT-ORIENTED APPROACH

1. min. input keeping constant output
2. CRS assumption
3. VRS assumption

OUTPUT-ORIENTED APPROACH

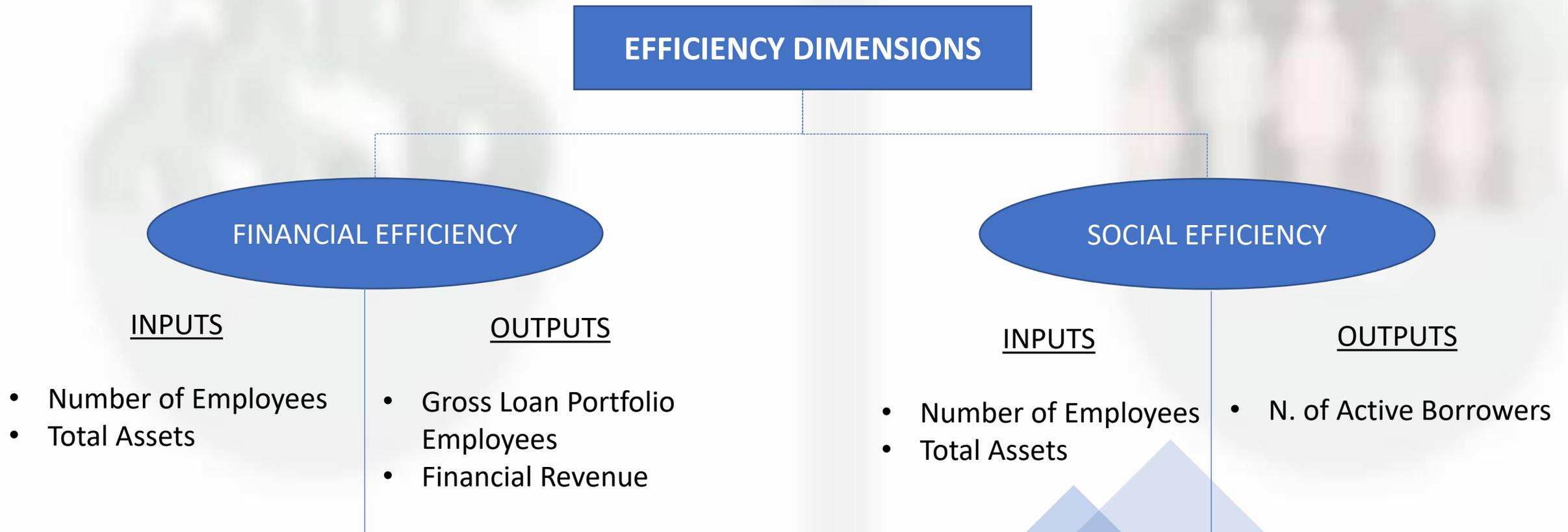
1. max. output keeping constant input
2. CRS assumption
3. VRS assumption



In our research we employed a CRS and VRS input - oriented approach considering two year data (2019 and 2020) using STATA16 software.

INPUTS AND OUTPUTS

In our research we use the data for 12 MFIs for two years: 2019 (without pandemic question) and 2020 (pandemic situation). 8 NBFIs and 4 SLAs (the same institutions for two years). The data are collected from National Centre of Business and from Central Bank of Albania.





SUMMARY STATISTICS

YEAR	Variable	Units	Minimum	Maximum	Mean	Std. Deviation
2019	Gross Loan Portfolio (Y2)	EUR	366384	106675997	21301853	30001268
	Number of Employees (X1)	Number	8	579	149	167,3
	Number of Borrowers (Y1)	Number	103	75000	18078	25116,3
	Total Assets (X2)	EUR	598303	147419355	29090981	40566598
	Financial Revenue (Y3)	EUR	174036	20110869	5608355	6948529
	Average Loan Size (Y4)	EUR	237	18689	3913	5117
	2020	Gross Loan Portfolio (Y2)	EUR	369363	109874230	22364658
Number of Employees (X1)		Number	10	608	143	169,3
Number of Borrowers (Y1)		Number	126	60000	16611	21603,6
Total Assets (X2)		EUR	603167	149792027	29068828	41614830
Financial Revenue (Y3)		EUR	175451	23425801	6260769	7757694
Average Loan Size (Y4)		EUR	237	19444	4174	5369

EFFICIENCY INDEX

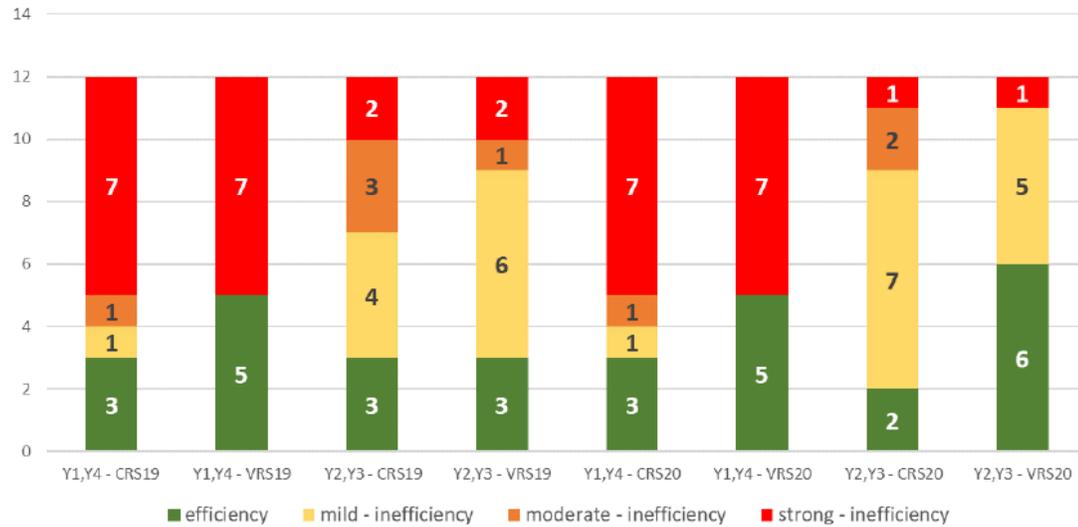


Figure 3. Distribution of MFIs by efficiency level

Note: full efficiency [1,00 score]; mild inefficiency [0,7 – 0,99 score]; moderate inefficiency [0,5 – 0,7 score]; strong inefficiency [0 – 0,5 score].

Source: own calculations



min. score = 0,0

target score = 1,0



CORRELATION

Spearman's rho 2019	FINEFFCRS	FINEFFVRS	SOCEFFCRS	SOCEFFVRS
FINEFFCRS	1	0,98***	0,58	0,4
FINEFFVRS	0,98***	1	0,61	0,42
SOCEFFCRS	0,58	0,61	1	0,95***
SOCEFFVRS	0,4	0,42	0,95***	1

Spearman's rho 2020	FINEFFCRS	FINEFFVRS	SOCEFFCRS	SOCEFFVRS
FINEFFCRS	1	0,46	0,61	0,43
FINEFFVRS	0,46	1	0,43	0,29
SOCEFFCRS	0,61	0,43	1	0,93***
SOCEFFVRS	0,43	0,29	0,92***	1

***correlation is significant at the 0.005 level (2-tailed)

**correlation significant at the 0.01 level (2-tailed)

We can conclude that correlation between Financial Efficiency and Social Efficiency it's positive but not significant.



Table 7. Determinants of Financial Efficiency (Tobit regression)

Variable	Y2, Y3-CRS19	Y2, Y3-CRS20	Y2, Y3-VRS19	Y2, Y3-VRS20
Intercept	1.595*	1.456***	1.556*	4.370***
AGE	-0.047**	-0.034***	0.047**	-0.08**
EIR	0.009	0.0061***	0.01	0.010*
ROA	0.090*	0.1057***	0.087*	0.210***
DER	0.075**	0.058***	0.076**	0.042*
OSS	-0.0061	-0.006**	- .006	-0.023***
CB	-5.03e-07	6.2e-07	-3.5e-07	-5.7e-07
BS	0.0002	0.0000	0.0000	0.0000
NB	-0.005**	-0.005***	-0.005**	-0.006**
PseudoR ²	2.5828	6.1411	2.4643	1.5407
LR-Chi square	25.61	34.57	24.16	21.02
Log Likelihood	7.8470	14.472	7.179	3.6881

*, **, *** indicate the coefficient is significant at 10, 5, and 1 percent levels, respectively

MFI experience (AGE)

Effective Interest Rate (EIR)

Return on Assets (ROA)

Debt/equity ratio (DER)

Operating Self Sufficiency ratio (OSS)

Cost per Borrower (CB)

Borrowers per staff (BS)

MFI branches (NB)



Table 8. Determinants of Social Efficiency (Tobit regression)

Variable	Y1, Y4- CRS19	Y1, Y4- CRS20	Y1, Y4-VRS19	Y1, Y4-VRS20
Intercept	2.4055***	2.1196***	4.005***	3.9553***
AGE	-0.054***	-0.049***	-0.067***	-0.0675**
EIR	0.0049	0.004	-0.002	-0.0022
ROA	0.0270	0.0243	0.0714**	0.069**
DER	0.0278*	0.027*	0.009	0.008
OSS	-0.0144***	-0.0126***	-0.022***	-0.021***
CB	2.02e-06***	2.41e-06***	1.20e-06	1.67e-06
BS	0.0002***	0.0025***	0.0002***	0.0002**
NB	-0.0053***	-0.0052***	-0.008***	-0.0086***
PseudoR ²	2.5091	2.4153	1.8868	1.6095
LR-Chi square	49.78	47.76	39.93	35.69
Log Likelihood	14.971	13.992	9.3849	6.7581

*, **, *** indicate the coefficient is significant at 10, 5, and 1 percent levels, respectively

MFI experience (AGE)

Effective Interest Rate (EIR)

Return on Assets (ROA)

Debt/equity ratio (DER)

Operating Self Sufficiency ratio (OSS)

Cost per Borrower (CB)

Borrowers per staff (BS)

MFI branches (NB)



CONCLUSIONS

- ✓ The emerging situation of the microcredit sector in Albania;
- ✓ DEA analysis reveal that microcredit institutions do not fulfill the social objectives of MFIs;
- ✓ The correlation between financial efficiency and social efficiency is positive but not significant. We can not conclude about the financial importance in supporting the social objectives of MFIs.
- ✓ It seems that the pandemic situation has had no effect in the analyzed dimensions of efficiency.
- ✓ This study shows that not all economic indicators run in the same direction to improve efficiency: e.g., ROA increase improves financial efficiency but can decrease social efficiency and the effective interest rate is associated with distorting effects.
- ✓ The results of this research indicate higher financial efficiency compared to social efficiency