

**Microfinance in Albania:  
The Role of Financial Institutions in Expanding Access to  
Credit**

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## **Abstract**

Since the collapse of communism in 1990, Albania has endured several social, cultural and economic transformations. The country's favorable climate, geographical conditions and strategic location have all played significant roles in Albania's pursuit of economic prosperity and becoming a functioning market economy. However, despite economic reforms enacted by the government, no palpable change has been achieved. Albania continues to be plagued with challenges, economic development has only become more elusive, and democracy has remained unstable. It is no surprise that 12.5% of the population falls below the poverty line and while rest of Eastern Europe has risen out of dire poverty and instability, the case is not the same for Albania. While the recent European Union accession of Albanian's neighboring countries Bulgaria and Croatia (in 2013), the pressure for Albania to recalibrate its economy is now front and center.

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## List of Abbreviations

ALL Official currency of Albania

BoA Bank of Albania

SME Small and medium enterprises

RB Raiffeisen Bank

PCB Pro Credit Bank

ISP Intesa San Paolo Bank

GDP Gross Domestic Production

## Introduction

Albania is a small country situated in the eastern shore of the Adriatic Sea, with a population of 3 million.<sup>1</sup> For decades, Albania was under one of the toughest communist regimes in the entire communist bloc in Europe. The collapse of communism in Albania in 1991 was followed by moral, cultural and economic crises. The transition from communism to capitalism has proven to be very difficult; nevertheless, economy was growing to a certain extent, up until Albania faced the rise and fall of pyramid schemes, which brought the country into a civil war in 1997. Even though no bank collapsed during the war, the loss of public confidence in financial institutions affected the growth of the banking sector. Since then, Albania continues to struggle to end its democratic transition, consolidate democratic institutions and establish a free-market economy.

Microfinance is the most important strategy to fight poverty and develop small and medium enterprises in Albania. By definition “microfinance is a type of banking service that is provided to low-income people or groups and the goal is to give them an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance”.<sup>2</sup>

Access to finance is essential for business growth and there are basically two ways for Albanian farmers and SME-s to access credit: first, **commercial banks** which play a primary role in financing businesses; and, second, **cooperative banks** usually called savings and credit unions, which play a significant role in rural areas.

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<sup>1</sup> Central Intelligence Agency [US], last visit on May 28, 2012, <https://www.cia.gov/library/publications/the-world-factbook/geos/al.html>

<sup>2</sup> Investopedia Dictionary, last visit on May 25, 2012, <http://www.investopedia.com>

According to the World Bank report “Doing Business 2012”<sup>3</sup> the business climate in Albania is still far from optimal parameters. In order to create a favorable climate for this sector, it is important to create a strong legal infrastructure and ensure a favorable microfinance environment.

For years, microfinance institutions have been financially and technically supported through external assistance projects, which ended in December 2010. This paper will analyze the progress of microfinance institutions during 2010-2012, their role in economy and why there is a need from the Albanian government to further support these institutions.

Even though, the Albanian government, with Bank of Albania<sup>4</sup> as its fiscal advisory implemented the Albanian Collateral Law, and a Registry of Securing Charges was created to facilitate access to credit, commercial banks are still not willing to expand access to credit. Although, Banker’s Associations supported this reform and many researchers have been enthusiastic for this cooperation, *de facto*, there are still many problems in law enforcement and harmonization with other laws, which affect this cooperation.

The major challenge facing the Albanian economy is in achieving a process of self-sustained economic development, and the problem is how to facilitate access to credit for small and medium enterprises that operate in urban and rural areas, especially in rural areas.

The goal of this paper is to analyze and recommend how to improve and facilitate access to credit. In doing so it will answer why credit is one of the most important factors for small and medium businesses to grow, increase employment and attract investors, therefore the whole

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<sup>3</sup> The International Bank for Reconstruction and Development 2012 “Doing Business 2012” , last modified May 25, 2012, <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ALB.pdf>

<sup>4</sup> Central Bank of Albania

economy can grow and be sustainable in the long run. Further, the paper sheds light on the most important problems and recommends how they can be solved.

In order to examine all relevant factors that prevent access to credit, the first chapter will highlight the **role of commercial banks** in the Albanian financial market, their policy and products regarding credit and loans. In addition to this, Collateral Law and Registry of Securing Charges will be analyzed in order to estimate administrative barriers. Furthermore, it will introduce **field warehouses** as a link between financial institutions and agriculture, and analyze why this is an appropriate solution for Albania.

The second chapter will analyze the **role of Savings and Credit Unions** as an innovation in the Albanian financial market to fill the gap of almost 50% of the population that lives in rural areas. Albanian Savings and Credit Unions will be analyzed in order to evaluate the role and importance of these institutions in Albanian economy. It will analyze why commercial banks do not operate in rural areas and why the cooperation between commercial banks and savings and credit union foster optimism to introduce field warehouse in Albania.

Although previous research concerning Albanian microfinance exists, this paper distinguishes itself from other research papers because it explicitly link microfinance institutions, commercial banks and Collateral law. The weight of this paper falls in the analysis of all the relevant economic and legal factors that affect microfinance access in Albania and suggest the best solution based on other Central European countries' experiences.



## Chapter I: Albanian Banking System and Governing Law

This chapter will analyze all relevant factors that prevent commercial banks from expanding access to credit and increasing their microfinance portfolio. The first part of this chapter will provide an overview of the Albanian banking sector. The second part will analyze the Collateral Law and Registry of Securing Charges, as the basic legal and institutional infrastructure necessary for implementing the law, in order to facilitate access to credit. The third part will focus on commercial banks, their role and analyze the correlation between law enforcement and microfinance portfolio of commercial banks. Further on it will introduce *field warehouses* as a link between financial institutions and agriculture, and analyze why this is an appropriate solution for Albania.

### 1.1 Banking System

In 1992, after the collapse of communism, the Albanian Parliament officially established a two-tier banking system by enacting both the Law no 7559 “On the Bank of Albania,” which governs the Central Bank of Albania and Law no. 7560 “On the Banking System of Albania”<sup>5</sup> which governs commercial banks and other financial institutions. Following the guidance of the International Monetary Fund and World Bank, Albania pursued the model of two financial regulators: the Central Bank monitors the banking system and the Financial Supervisory Authority supervises the non-banking financial sector<sup>6</sup>. Even though these two institutions have legal and operational autonomy, there is no absolute independence due to the fact that these

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<sup>5</sup> Shkelqim Cani, “*Bank of Albania in the second decade of Transition*”, Pg 1, last visit at May 30,2012 [http://www.bankofalbania.org/web/pub/guven\\_ang\\_212\\_1.pdf](http://www.bankofalbania.org/web/pub/guven_ang_212_1.pdf)

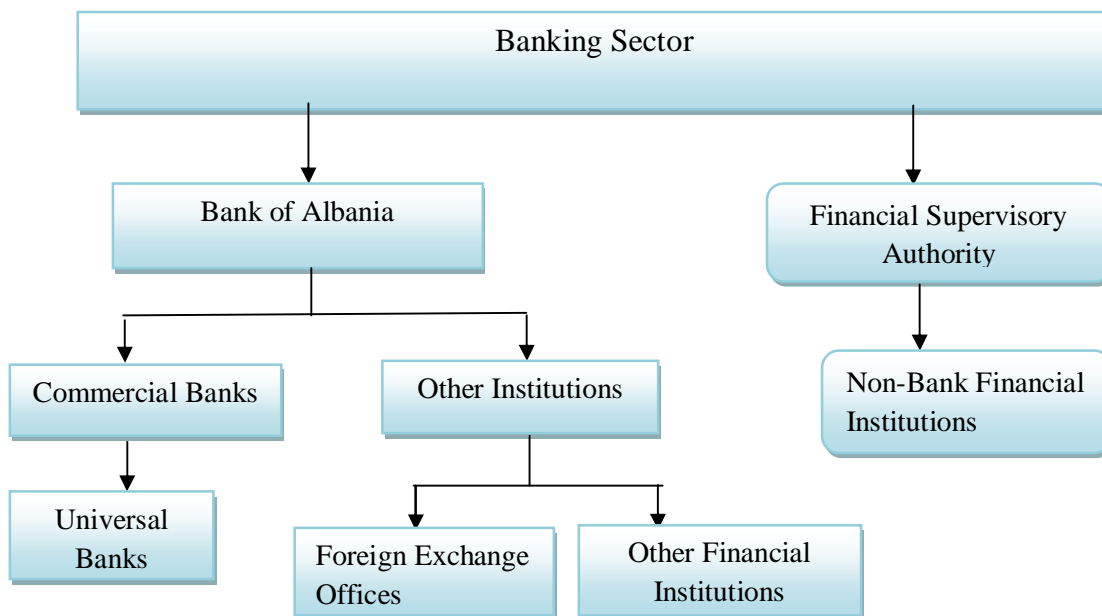
<sup>6</sup> Albanian Financial Supervisory Authority, last visit May 4, 2012, [www.amf.gov.al](http://www.amf.gov.al)

institutions are accountable to the Parliament/ Legislative and the members of Supervisory Board are elected by the Legislative body.<sup>7</sup>

### 1.1.1 Structure of financial system in Albania

There are two sources of debt financing in Albania: banks and other lending institution, non-banking financial institutions. Every component of the economy is carried by several institutions, with one single institution in charge. Bank of Albania supervises and regulate all commercial banks, foreign exchange offices and other financial institutions, which are treated as banks but their rights are limited, i.e. Savings and Credit Unions. Financial Supervisory Authority is the institution in charge to supervise all non-bank financial institutions.

**Figure 1:** Structure of banking sector



*Source: Bank of Albania*

<sup>7</sup> Law nr 9572 Date 03.07.2006 pg 3, *Unofficial English translation*, last visit May 23, 2012 <http://amf.gov.al/readLaw.asp?id=45>

The financial sector is identified mainly with the banking sector due to the fact that the role of other financial actor's remains relatively small. Even though, Bank of Albania has been successful in regulating the role of commercial banks to adjust money supply and interest rate in the banking system, Foreign Exchange Office (Bursa e Tiranës) is a not functional pillar of the system and the supervision of other financial institutions is limited. Bank of Albania adjusts money supply and interest through reserves in ALL<sup>8</sup> and foreign currency that commercial banks are required to hold in Bank of Albania. The role of Bank of Albania, commercial banks and other financial institutions will be analyzed in these two chapters.

Non-banking financial institutions are licensed by Bank of Albania, but the Financial Supervisory Authority is the institution in charge, accountable to the Parliament, to monitor this financial sector. These financial institutions started growing in 1999, when the economy started recovering from the collapse of the state in 1997. They are underdeveloped and they are concentrated mainly in a few basic products and services. Even though some of these institutions are engaged in factoring and leasing their role in expanding access to credit is almost irrelevant. They are facing challenges regarding legislation, lack of political will to support and develop; their role in the market is almost negligent and they operate as limited liability companies.

Non-banking financial institutions could become a very important player in the Albanian market, however, only if properly regulated. However, the aim of this paper is to analyze financial institutions that have a high share in expanding access to credit, and for this purpose non-banking financial institution will not be analyzed any further.

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<sup>8</sup> The **lek (code:ALL)** is the official currency of Albania

Even though the banking industry is considered the most developed part of the Albanian financial sector, according to the Albanian Competition Authority report, issued in February 2011, the service tariffs compared to regional countries are much higher, consumer rights are still an issue and there is a need for improvement in the banking sector to increase transparency<sup>9</sup>. According to the Bank of Albania, 20%<sup>10</sup> of the money in circulation is still outside of the banking system, especially in the rural areas where banks do not operate.

It is important to mention that co-operation between Bank of Albania and the Ministry of Finance has been a positive aim to promote economic sustainability and friendly environment facilitating procedures for businesses to enter the market.

## 1.2 Legal Aspects

Despite the new laws and regulation adopted by the government, in compliance with the best practices of European Union, Albania remains one of the poorest countries in Europe. Although for years the target of the government has been to expand access to credit, the Albanian economy stands at 82 from 183 economies on a list comparing the ease of doing business, 58% of entrepreneurs fail because they do not have enough capital to grow their business, 5% because there is too much bureaucracy and they cannot afford the bribes and 15% because they are threatened by competitors<sup>11</sup>.

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<sup>9</sup> Rovena Bahiti, Rezarta Shkurti (Perri) and Juliana Babasuli, "Impact of the Latest Financial Crisis on a Bank-Based Financial System: Case of Albania" The Romanian Economic Journal March 2011 pg. 11 , accessed at <<http://rejournal.eu/Portals/0/Arhiva/Bahiti%20et%20al%20-%20JE%2039.pdf>> last visited at May 20, 2012

<sup>10</sup> US State Department, "Money Laundering Report 2011", last visit at May 30,2012  
<http://www.knowyourcountry.com/albaniaq.html>

<sup>11</sup> European Bank for Reconstruction and Development; Transition Report 2011, chapter 4; last visited at May 22, 2012, accessed at <http://www.ebrd.com>

Table 1 lists the overall indicators compared with 183 economies in the ease of doing business.<sup>12</sup> The indicators show where the economy stands today and provides useful information for assessing how easy or difficult it is for domestic small and medium entrepreneur to start a business and operate in Albania, from the moment the business is in the start-up life cycle stage till resolving insolvency. Ranking on each topic is based on its component indicators such as time, cost, procedures, strength of legal rights, credit information, reforms; extend of disclosure and enforcement of judgment.

**Table 1 *Ease of Doing Business***

<b>Topic Rankings</b>	<b>Rank in 2012</b>	<b>Rank in 2011</b>	<b>Change in Rank</b>
<b>Starting a Business</b>	61	56	-5
<b>Registering Property</b>	118	126	+8
<b>Getting Credit</b>	24	21	-3
<b>Protecting Investors</b>	16	15	-1
<b>Enforcing Contract</b>	85	88	+3
<b>Resolving Insolvency</b>	64	62	-2

*Source: World Bank*

The table shows that Albania is improving in registering property and enforcing contracts but it is still falling behind to give small and medium entrepreneurs incentive to start and grow their business, protect investors and implement a well-functioning system to facilitate access to credit. Overall the impression is that Albania not only is not making progress, but for some indicators is worse than previous year.

However, after the collapse of the financial system in 1997, the Albanian government with Bank of Albania as fiscal advisor and advice of World Bank, USAID and IMF prepared the first legal framework regarding secured financing.

<sup>12</sup> World Bank and The International Finance Corporation, “Doing Business 2012” accessed at [www.worldbank.org](http://www.worldbank.org) or [www.doingbusiness.org](http://www.doingbusiness.org)

### 1.2.1 Collateral Law

In October 1999, the Albanian Parliament passed the Collateral law, representing a fundamental change in the way Albania deals with secured financing. The law is based on Canadian model and entered into force on January 1, 2000.<sup>13</sup> This reform has a significant effect because in its absence banks or other financial institution will not give loans to small or medium businesses. There was a need to assure lenders that the credit will be repaid and the collateral will be available to satisfy the loan. This was a very important moment for the Albanian economy and especially for banks regarding their lending activities.

Collateral is “a borrower’s pledge of specific property to a lender to secure repayment of a loan.”<sup>14</sup> Moreover, Albanian Collateral Law defines a **chargor** as “a person who owes the obligation and owns the collateral” and **chargee** as “a person in whose favor a securing charge is created”. The **chargor**, based on a charge agreement gives loans to legal entities or natural persons and gets in exchange a real right on a movable property of the borrower.<sup>15</sup>

This agreement is considered as “an executive title”, a guarantee for financial institutions in case of defaults that come into force without further notice or procedure. When registering, the parties must describe in detail the nature of collateral, serial number, time and date of creation<sup>16</sup> and the execution officer is entitled to seize the collateral described. The agreement is the only document that determines rights and obligations between **the chargor** and **the chargee** and the rights of third parties involved. In the case of default, the secured creditor must present the court

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<sup>13</sup> International Finance Corporation, *Secured Transactions Systems and Collateral Registries*, January 2011, Pg 18 last visit on June 2, 2012, <https://www.wbginvestmentclimate.org/uploads/SecuredTransactionsSystems.pdf>

<sup>14</sup> Wikipedia, *The Free Encyclopedia*, *Collateral (finance)*, [http://en.wikipedia.org/wiki/Collateral\\_\(finance\)](http://en.wikipedia.org/wiki/Collateral_(finance))

<sup>15</sup> Yair Baranes, Ronald C.C Cuming, “ Handbook on the Albanian Collateral Law” World Bank pg 16, 17 and 34 available electronically at <http://documents.worldbank.org> last visit on May 22, 2012

<sup>16</sup>Time and Date the agreement is signed by parties, chargor and chargee and is very important in determining validity and completion on securing charges.

the agreement of securing charges registered in the Registry, in order for the court to issue an enforcement order. In the meantime a bailiff office sequesters the collateral until its restitution to the creditor.

In his analysis regarding securing charges, Riccardo Sallustio,<sup>17</sup> stated that the law creates uncertainty and is not harmonized with Albanian Civil Code and Bankruptcy Act. He based his analysis on two approaches:

1. Prior to this law, movable properties were regulated under the Civil Code<sup>18</sup> for pledges, and even though the idea was to create another system which governs movable property (excluding pledges), Article 2<sup>19</sup> of the Collateral law includes possessory pledge, creating uncertainty which procedure should be followed and which law will govern the securing charges in case of default. Furthermore, the Collateral Law excludes application of this law for any transaction governed by other law of the Republic of Albania. In this context Article 449 and 546<sup>20</sup> of the Civil Code provide that when it comes to transaction, provisions of the Civil Code regarding accounts and pledges do not apply. (page 45)
2. Priorities of secured creditor in bankruptcy proceeding are unclear and there is no definition under which basis a pledge would be unable to be regarded as a secured charge. (page 48)

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<sup>17</sup>Riccardo Sallusto “ New Albanian Law on securing charges”, Transition Economy Journal 2000, last visit on May 25, 2012 <http://www.ebrd.com/downloads/legal/secured/lit002b.pdf>

<sup>18</sup> Albanian Civil Code Article 560-584

<sup>19</sup> Article 2 of the Collateral law “ This law governs any transaction whatever its form and however it is designated, that creates whether by transfer of ownership, possession such as in the case of pledge or otherwise, a securing charge in movable things, intangible property or rights of their owner”

<sup>20</sup> Article 449 of the Civil Code deals with the transfer and sale of accounts and Article 546 deals with transfer and sale of pledges

Twelve years later, there is no change in the Albania Civil Code, Bankruptcy Act and the Collateral law to harmonize these laws and clarify secured creditor priorities and which law will prevail.

Another problem with this procedure is the fact that it is costly and the **chargee** is not protected. The bailiff office will charge 7% of the secured claim and the whole procedure will take approximately 6-12 months<sup>21</sup>. There are no adequate protections for the **chargee** against whom the registration has been made and the **chargee** consent is assumed by the existence of the agreement with no further checking. This ambiguity in the law itself, followed by costly and long procedures, creates uncertainty for both parties.

### 1.2.2 Registry of Securing Charges

One of the big improvements in securitization was the establishment of the Albanian **Registry of Securing Charges**, which is maintained by the Ministry of Finance but differently from other countries only the **chargor** can require registration of the collateral. The purpose of this Registry is to register and make public all the rights and claims that pursue the law on Securing Charges but also other laws that require registration. Even though this was a big step in ensuring transparency a survey on charges registry showed a weakness of the supervision of this register and a lack how fast the information is published and available for the public.<sup>22</sup>

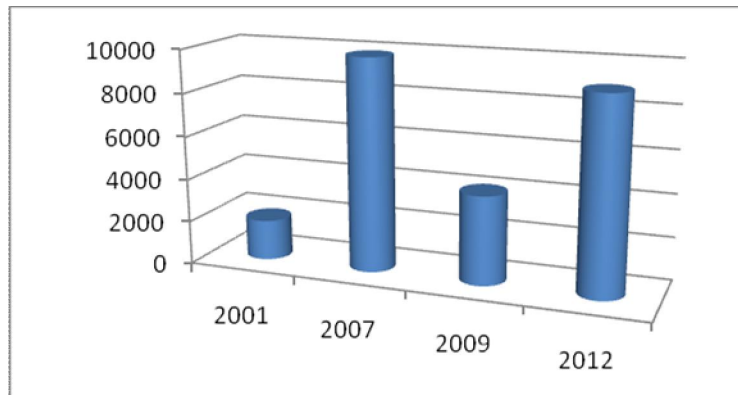
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<sup>21</sup> European Bank for Reconstruction and Development, "Enforcement of Charges Survey Albania", Pg 4, last visit on May 25, 2012, [http://www.ebrd.com/downloads/legal/facts/albania\\_charge.pdf](http://www.ebrd.com/downloads/legal/facts/albania_charge.pdf)

<sup>22</sup> European Bank for Reconstruction and Development, "Law in Transition", (Autumn 2000). Pg 20, last visit on May 23, 2012 <http://www.ebrd.com/downloads/legal/secured/publicit.pdf>



**Graph 1: Volume of movable registration**



*Source: World Bank*

After the law was passed, in 2001, the volume of registrations in the registry of movable properties jumped from 1,874 to 9,860 in 2007.<sup>23</sup> The decrease in 2009 in the volume of registration to 4,105 was a result of the credit crunch which made more difficult and costly for Albanian's small and medium enterprises to receive credit and loans. The economy was affected not only because most of the commercial banks in Albania are subsidiaries of foreign banks but also because Albania's economy heavily rely on remittances. During the first quarter of 2012, the volume of registration increased to 8,972<sup>24</sup> showing that the economy is slowly recovering from the credit crunch.

In May 2011, Ardian Fullani, the Governor of the Central Bank of Albania, eleven years after the law entered into force, declared that there are still many deficiencies regarding the registration and enforcement.<sup>25</sup> Even though Albania continues to make progress, there are still numerous issues to deal with such as corruption in the enforcement procedure and property

<sup>23</sup> World Bank, "Doing business 2011" Pg 46, last visit on May 28,2012, <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/annual-reports/english/db11-fullreport.pdf>

<sup>24</sup> World Bank, "Doing business2012", Pg 55 last visit on June 1, 2012 <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ALB.pdf>

<sup>25</sup> Ardian Fullani, " High interest rates, Fullani blames bailiff office", Top-Channel 2011, last visit on May 27,2012, <http://www.top-channel.tv/english/artikull.php?id=972>

rights, both movable and immovable property, are not well-defined and protected. According to the World Bank report of 2012, the registry fails to make public credit information from trade creditors, retailers or financial institutions and the data provided are for less than 2 years which makes more difficult for financial institutions to analyze a creditor according to his credit history. Resolving insolvency takes approximately 2 years and costs 10% of the debtor's estate.<sup>26</sup> These are bad incentives not only for domestic entrepreneurs that already have lost faith in the system but also for attracting foreign investors.

There are gaps that make unclear how these real rights on movable property will be managed in case of bankruptcy, the degree of protection and priorities they have. Most of the people in Albania are not well informed about their rights and liabilities and the enforcement of the law remains unsatisfactory<sup>27</sup>. In his declaration during the Parliamentary Commission of Economy, the Governor asked the government to make the enforcement procedure more efficient because the law is still not clear for the market, small and medium enterprises, investors and financial institutions, showing that enforcement of law in Albania remains still an issue.<sup>28</sup> These uncertainties should be minimized so that commercial banks as the primary source of short, medium and long-term credit facilitate their requirements.

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<sup>26</sup> World Bank report 2012 pg 49, 83 and 90, "Doing Business in Albania", last visited on May 25, 2012, <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ALB.pdf>

<sup>27</sup> EBRD, "New Albanian Law on securing charges", Pg 44, last visit on May 28,2012, <http://www.ebrd.com/downloads/research/law/lit002a.pdf>

<sup>28</sup> Ardian Fullani, " High interest rates, Fullani blames bailiff office", Top-Channel 2011, last visit on May 27,2012, <http://www.top-channel.tv/english/artikull.php?id=972>

### 1.3 Commercial Banks

The banking system in Albania consists of 16 commercial banks, extended in 392 brunches and agencies which are under jurisdiction of the Bank of Albania. These banks have 100% private equity and the foreign capital has a high share: 14 are subsidiaries of foreign banks and only 2 banks are domestically owned. Although these banks have developed and new products were born to fill the market there are still several problems in many directions and they are not as developed as a banking system should be. The loan/deposit ratio is 36.6% which means than only 36.6% of the total amount of deposits in the banking sector is used to expand more credit and give loans to the market.<sup>29</sup>

Many businesses and individuals have no access to credit and commercial banks are focused mainly to secured loans which are loans in which the borrower pledges some assets, usually real estate, as collateral and in case of default the creditor takes possession of collateral, but they are not willing to accept movable property as collateral. The Monetary Operations Department in the Bank of Albania, in its surveys in bank lending, shows that commercial banks during these last ten years have fluctuated as a result also of the financial position of the European Union and the whole world. They have been successful in terms of expanding credit and accepting deposits in 2006 and at the beginning of 2007 but tightening of credit standards was created in 2008, 2009.<sup>30</sup> The terms and conditions for loans began to diminish again only in 2010 and 2011.

In their report in January 2012, experts from International Business and Diplomatic Exchange, after analyzing the Albanian market, concluded that the most important problem in

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<sup>29</sup> Bank of Albania “ Bank Lending Survey Q4-2011, [www.bankofalbania.org](http://www.bankofalbania.org)

<sup>30</sup> Bank of Albania, “ Bank Lending Survey, H-2, 2008, Q4-2009, Q4-2010, Q-4 201”, last visit on May 28, 2012

developing business in Albania is the limited access to finance supported by high interest rates that are slowing the investors and investments in the country.<sup>31</sup> In order to protect the value of the Albanian currency and also to sustain the foreign currency, Bank of Albania increased the base interest rate from 5% to 5.25% at the end of March 2011<sup>32</sup>, which increased even more the interest rates applied by the second tier banks. Overall the impression is that external institutions have stressed the need for administrative institutions to work efficiently, in order to improve national competitiveness and build trust in the system. Despite all the alerts, no significant improvement has been achieved to change the *status quo*.

The three most important commercial banks in Albania, Raiffeisen Bank, Intesa San Paolo (ISP) and Pro Credit Bank (PCB), which have a big share in Albanian market, are not willing to expand access to credit for farmers and accept movable property as collateral. Only PCB has a specific program and strategy for agriculture but there is a need of collateral to cover the loan. Raiffeisen Bank and ISP are the largest commercial banks regarding loan credit portfolio and asset. They do not operate in rural areas and many SME-s cannot fulfill the bank's collateral requirement.

The only microfinance product offered by commercial banks to individuals is the personal loan, where collateral is not necessary but these loans are subject to other requirements, such as garnishment of the salary from branches of the bank, a personal guarantee of a third person with solid financial background and interest rates are higher than regular loans covered by collateral. The amount offered is less than 1000 euro<sup>33</sup> with a maturity of 3 years and in case it is

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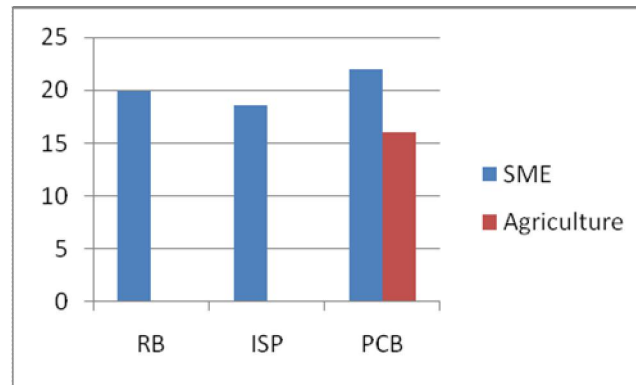
<sup>31</sup> Rudi Guraziu and Epidamn Zeqo, "Doing Business in Albania, Reforms and Opportunities" January 2012, Pg20

<sup>32</sup> Ardian Fullani, "Latest economic and financial development in Albania", Bank for International Settlement 2011, last visit on May 27, 2012, <http://www.bis.org/review/r110502f.pdf>

<sup>33</sup> 1 Euro=139.6 ALL [www.bankofalbania.org](http://www.bankofalbania.org) Official Exchange Rates, May 26, 2012

paid before maturity, interest rate and principal for 3 years must be paid which doubles the principal.

**Graph 2: Interest rates for loans**



Source: BoA, RB, ISP and PCB

Graph 2 shows the levels of interest rates offered by the main Albanian banks on 26 of May 2012. Interest rates in the graph above are calculated according to interest rates of each bank<sup>34</sup> + Tribor<sup>35</sup> published by BaA on May 26, 2012, on annual value. The Albanian market not only suffers from the lack of collateral and additional requirements but also commercial banks have the highest interest rate in the region, making access to credit more difficult for Albanians.

Commercial banks loan products for small and medium enterprises<sup>36</sup>:

- *Investment loan*
- *Multipurpose loan*
- *Micro commercial mortgage*

<sup>34</sup> RB, 7.1 [http://www.raiffeisen.al/skedare/Small\\_Businesses\\_Commissions.pdf](http://www.raiffeisen.al/skedare/Small_Businesses_Commissions.pdf) ; PCB, Pg3 [http://www.procreditbank.com.al/repository/docs/Buletini\\_i\\_normave\\_te\\_Kredise\\_shkurt\\_2012\\_929446.pdf](http://www.procreditbank.com.al/repository/docs/Buletini_i_normave_te_Kredise_shkurt_2012_929446.pdf) and ISP [http://www.intesasanpaolobank.al/web/pub/normat\\_efektive\\_te\\_interesit\\_sme\\_620\\_1.pdf](http://www.intesasanpaolobank.al/web/pub/normat_efektive_te_interesit_sme_620_1.pdf)

<sup>35</sup> Tribor is the interest rate that second tier banks in Albania pay for a loan to Bank of Albania. Last visit on May 26,2012 [http://www.bankofalbania.org/web/Interest\\_rates\\_11\\_2.php](http://www.bankofalbania.org/web/Interest_rates_11_2.php)

<sup>36</sup> Information regarding loan products and requirements is taken through the official website of Raiffeisen bank and interviews with employees. [www.raiffeisen.al](http://www.raiffeisen.al) ; not relevant differences with other commercial banks

Requirements:

- They loan must not exceed 10% of annual turnover of the company
- The loan must be secured with a pledge evaluated from their appraisal studio.
- A guarantor with solid financial background.

Despite the significant effort being made from the Albanian government to build a mutual trust and confidence between commercial banks and public sector, high interest rates and the above-mentioned requirements prevent small and medium entrepreneurs from relying on commercial banks for credit.

### ***Why commercial Banks do not facilitate access to credit based on Collateral Law***

Even though, the Bankers Association and its members were the first to support the government in implementing this reform, history shows that implementing the reform is not enough for commercial banks to facilitate access to credit for Albanian small and medium entrepreneurs. The problem is not only the law itself but also enforcement and compliance with other laws that lead the market. There are three major reasons why commercial banks do not facilitate access to credit:

First and most importantly, *there is uncertainty in the law itself*. The uncertainty of which law will supersede and prevail in the case of registration, execution, and default indeed prevent commercial banks from relying on this law to facilitate access to credit. Albania has a *codified legal system*, meaning that the legal code specifies the applicable procedure and the appropriate punishment for all the matters capable of being brought before a court and creating a distinct

system based on common law<sup>37</sup> before trained judges and lawyers creates doubt regarding efficiency.

Second, *protection of creditors in bankruptcy proceeding*. Secured creditors may lose priority in the case of a state or social security claim. The process can continue for years. Courts are not adequately experienced in handling bankruptcy proceeding and the danger of corruption is very high.

Third, *registration and enforcement*. The weakness of the supervision of the registry, failure to operate in an efficient way and disclose information is a reason for commercial banks not to rely on it. Failure to clarify property ownership is an impediment to the creation of a property market and in Albania property ownership issues remain sensitive.

Commercial banks make profits and create commercial bank money from the circulation of money, meaning that commercial banks loan money that was deposited and make profit through interest payment. If the interest is not paid and the client files bankruptcy, the money is blocked, the bank suffers lack of liquidity and the credit portfolio decreases. Bankruptcy proceedings in Albania can last more than 2 years<sup>38</sup>, which in bankers' language implies more losses. It is unlikely that commercial banks consider the possibility to accept movable properties as collateral or facilitate access to credit if the law itself is not clear and enforcement of law remains still a weak point of the Albanian legal system. For these three reasons, commercial banks target more big companies and larger SME-s to offset risk.

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<sup>37</sup> Common law is law developed by judges through decisions of courts and similar tribunals rather than through statutes.

<sup>38</sup> World Bank Report, *Doing Business 2012*, Pg 92 last visit on May 30,2012

<http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ALB.pdf>

### *What Albania can learn from Central European Countries*

Since the early 1990s Central European countries started to experiment with new forms of financing such as receivables financing<sup>39</sup> and some forms of warehouse receipt finance. Under Black's Law Dictionary<sup>40</sup> a *warehouse receipt*, is “considered a document of title, may be a negotiable instrument and is often used for financing with inventory as security” and a *field warehouse* is a “financing method by which a merchant pledges its inventory, which is in the possession of a third person.” Field warehouses are separate professional legal entities, meaning that they are not controlled by the creditor, i.e. financial institutions and the borrower i.e. farmer or merchant and they are responsible for the control of the goods.

The warehouse in many cases is owned by the borrower, but control over the warehouse is given to an independent party which issues a warehouse receipt. The warehouse receipt is used to provide the lender with a pledge and, in the case of default, to change ownership. It provides information regarding location, amount, quality, year of the harvest of the goods in the warehouse, and information about insurance and endorsements.

The operation is very straightforward- Every individual or small and medium entrepreneur that needs credit leave as collateral their production, (wheat, rice, sugar, etc.), in a warehouse controlled and monitored by a neutral party that builds a fence around commodities and they cannot be sold or moved from the debtor.

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<sup>39</sup> Receivable financing: asset-financing agreement where companies use their account receivables as collateral in financing agreement. Also referred as factoring

<sup>40</sup> Black Law Dictionary: Pg 1615 and Pg 659



*Advantages of field warehouses:*

- The warehouse receipt can be used as collateral.
- Reduces transaction costs because instead of the goods being moved, the warehouse is moved to the goods.
- Protects the creditor because in case goods are used as collateral the borrower cannot remove them from the warehouse without the consent of the creditor.

Even though, the difference in legal procedure and regulation renders certain tools more or less efficient, countries such as Bulgaria, Hungary, Slovakia and Lithuania have been able to build a consensus between the government and private sector.<sup>41</sup> The experiences of these countries suggest that warehouse receipt can be used as a link between financial institutions and agriculture, until the financial market improves further in this sector.

Even though the communist regime in Albania was tougher and left the country behind in many aspects, their experience in warehouse receipt can be used as an incentive for Albanians to explore the market and use warehouse receipt in the most efficient way possible. Their experience and development are positive signs that introducing and promoting field warehouse receipt in Albania will help farmers and SME-s unlock their “dead capital”.<sup>42</sup>

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<sup>41</sup> Frank Hollinger, Lamon Rutten and Krassimir Kiriakov, “ The use of warehouse receipt finance in agriculture in transition economies” (June 2009), Pg10, last visit on May 27,2012

[http://www.ruralfinance.org/fileadmin/templates/rflc/documents/The\\_use\\_of\\_warehouse\\_pdf.pdf](http://www.ruralfinance.org/fileadmin/templates/rflc/documents/The_use_of_warehouse_pdf.pdf)

<sup>42</sup> **Dead capital** is an economic term related to property which is informally held that is not legally recognized. The uncertainty of ownership decreases the value of the assets and/or the ability to lend and borrow against it.

[http://en.wikipedia.org/wiki/Dead\\_capital](http://en.wikipedia.org/wiki/Dead_capital)

There are two reasons why warehouse receipt can be a solution in Albanian market:

- First and most importantly, the fact that the commodities **are under the control of a neutral party**, they are visible and the borrower cannot sell or move without the creditor consent, makes the **creditor** feel more secure, which was the first reason why commercial banks do not facilitate access to credit.
- Second, in case of default the creditor can sell the goods immediately at low costs. There is no need for a bailiff office to seizure the goods and wait for the court's decision. The warehouse receipt entitles the creditor to obtain **immediate ownership** in case of default. Analysis showed that another problem the Albanian financial institutions face are high costs, duration and the fact that courts in Albania are inexperienced in handling these cases.

In order for this process to be efficient it is necessary for the government to accept warehouse receipt as a document of title and implement an adequate legal framework that defines rights and obligations of the parties and protect creditors in case of default.

The absence of commercial banks in rural areas increased the role of cooperative banks in Albanian economy. The next chapter will analyze cooperative banks in order to have a complete view of all finance institutions that are actively engaged in providing microfinance services and most importantly analyze how these financial institutions will react in case field warehouse are introduced.

## Chapter II: The role of cooperative banks in the Albanian financial market

The aim of this chapter is to analyze cooperative banks focusing in the idea of introducing *field warehouse* in Albania. The first part will give an overview regarding the microfinance situation in Albanian rural areas. The second part of this chapter will focus on **Savings and Credit Unions**, as an innovation in the Albanian financial market; analyze their structure and why there is a need from Albanian government to further support these institutions. Furthermore, it will explain why commercial banks do not operate in rural areas and why the co-operation between commercial banks and savings and credit unions promote the idea of introducing field warehouse in Albania.

### 2.1 Microfinance in Rural Areas

Rural areas in Albania make up more than 80% of the territory, with 53% of the population living and engaging in agriculture, the industry contributes approximately 20% to the Albanian GDP<sup>43</sup>. For years, the public policy goal of the government has been to reduce poverty and increase sustainability in these areas. To this day, commercial banks do not operate in rural areas and there are multiple reasons why:

- First, there is a key absence in the current legal framework regarding the **definition of “microfinance” and “micro credit”**. The potential clients are considered high-risk clients from the beginning because of a lack of information.
- Second, most of the people in rural areas live in **extreme poverty**, so the cost of establishing a branch in these villages’ exceeds the possible future profit.

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<sup>43</sup> Gross Domestic Product: refers to all officially goods and services produced within a country in a given period of time. [www.fao.org](http://www.fao.org) Country Study: Albania

- Third, **property rights** in Albania are not well defined and secured by the government; most farmers cannot prove their ownership regarding their house or land.

The reason behind this is the fact that the lack of collateral indeed makes the loans more unsecured and risky, so if the government's aim is to give access to credit to low income people, there is a need to separate these institutions, their nature, scope, and the minimum capital required to enter the market in order to have financial sustainability. Unprotected property rights are a bad incentive for both farmers and financial institutions, so there is a need from the government to guarantee property rights in order to provide incentive for the farmers to invest and also facilitate access to credit because a legal and protected right is a real right which can be used as collateral.

This gap increased the role of savings and credit unions in rural areas, which started their activity in 1992 with the support of a French NGO, UNDP and World Bank.<sup>44</sup> For years, these institutions have been technically and financially supported by external funds and only on May 3, 2001,<sup>45</sup> the Albanian government introduced and implemented the Law no 8782 "For Savings and Credit Association". This law gives Bank of Albania full authority to supervise and regulate these Unions regarding accounting standards, annual reports and decide a minimum interest rate in order to guarantee solvency of these Unions and their members, savings and credit association.

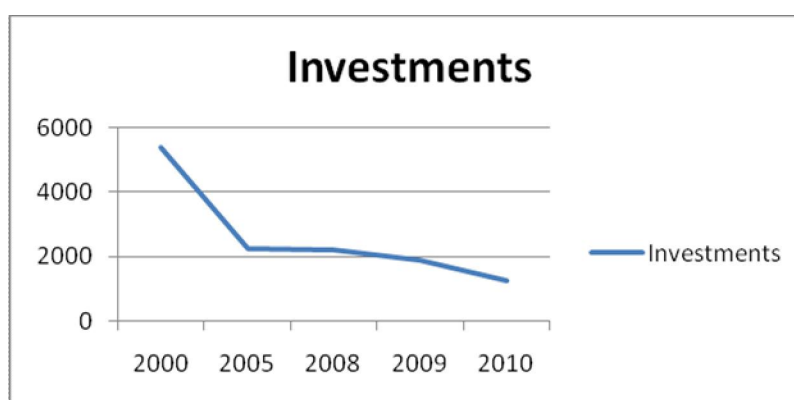
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<sup>44</sup> United Nation Development Programme, *Organizational Model of Microfinance in CEE and NIS*, Pg 19, last visit on May 27, 2012, <http://www.mfc.org.pl/sites/default/files/Chapter%203%20Organisational%20Models%20of%20Microfinance%20in%20the%20Region.pdf>

<sup>45</sup> Albanian Savings and Credit Unions, *About us - Legal and Regulatory Framework*, last visit on May 29, 2012 <http://www.ascunion.org.al/en/index.html>

Even though the agriculture industry has a high potential to develop in Albania, farmers are unable to make high-level investments because of the lack of crediting and investor interest. In 2010, when all the supporting programs for this industry from non-governmental international institutions ended, the level of investments decreased by 76%.

**Chart 2: Investments**



*Source: Ministry of Agriculture and Consumer Protection*

Early investments focused on physical infrastructure, roads, schools, hospitals and high quality infrastructure, such as water and sanitation. These institutions, usually called cooperative banks or savings and credit unions, start collecting money from their members at a very low interest rate and most of the capital was financed by donor funds. The “allergic” reaction that Albanians have towards any socialist concept<sup>46</sup>, affected the development of these microfinance institutions. However, with the help of international institutions, they survived and currently their role in agriculture and expanding access to credit is very important.

Savings and Credit Unions are facing many challenges to increase their capital, therefore credit portfolio. In Albania, two Savings and Credit Unions operate, “Albanian Savings and Credit Union” and “Jehona”, which have 135 associations in the Albanian territory. Even though

<sup>46</sup> During communism, Albanian economy was based on cooperatives.

these micro finance institutions, to a certain extent, fill the gap that small and medium entrepreneurs and farmers face, additional support and funding is required to meet the demand and extend credit.

## **2.2 Savings and Credit Unions**

Savings and Credit Unions in Albania are financial cooperative banks created by different legal entities or natural persons, which deposit their money in the union and give credit to other members. They are recognized as legal entities, having distinct identity and legal personality. Every member, in order to be part of the union, has to pay a fixed amount which creates the capital of the union but this capital contribution is really modest. All the benefits are used to develop, increase capital, assets and expand activity of the union.

Their objective is to accept the deposit and give credit to the members of the union through their associations, third parties which might not be members only if it is specified in the statute of the union, and define their own conditions for the credit, such as maturity and collateral. The role of the Union is to analyze the risk its members are facing, to advise and refinance associations, technically support their staff and also provide the Bank of Albania with periodical information regarding the progress of the associations, usually twice per year.

Personal property in the form of livestock's, production, receivables, and greenhouses can be used as collateral in compliance with the Collateral Law. Every asset, used as collateral, is registered in the Registry of Securing Charges and in case of default the Union is a secured creditor and takes possession of collateral. Credit agreement is part of the documents necessary to have access to credit and the collateral value is the market value on the date the agreement is signed.

Even though these institutions are governed by the Bank of Albania and they are authorized to operate as commercial banks, at a certain point, they are not authorized to invest in safe instruments such as government bond, obligations and securities meaning that the possibility of increasing capital and diversifying their investment portfolio is very small. They do not have Central Bank money in their asset, necessary for transactions between banks, and the Bank of Albania affects their policy only from the interest base. This restriction affects directly the loan portfolio, decreasing the number of loans, making it more difficult to generate income.

They are two approaches in analyzing the level of growth and development of these Unions and why additional funds and support are necessary to achieve a higher level of growth.

First, it is impossible for the supply to meet demand because it is impossible to mobilize savings in a short period of time in order to meet the financing needs of small entrepreneurs, so regardless of their will and faith without external support these Unions cannot be efficient. The trauma from the collapse of the pyramid scheme makes it more difficult to expect people to trust their savings with these Unions, even though they survived the financial sector collapse during 1997 and interest rates regarding deposits are competitive. Most of the people live in poverty and for family reasons or business opportunities, the trauma of pyramid schemes and need for liquidity in the short run, most of the deposits are short-term deposits, which makes it more difficult to use these funds as a source for credit and reach a larger potential.

Second, authorization of Credit Unions was made before a proper legal framework or supervisory by Bank of Albania was established. These Unions are regulated by the Bank of Albania but with a very limited staff and they are not properly supervised. The system operates through an arrangement, where delegates of BoA supervise the products, training procedure, and

credit lines and give assistance reporting to local authorities and BoA. These Unions are not allowed to increase capital through investments<sup>47</sup> and their only way of increasing capital is through members, which make their capital limited. Therefore credit portfolio is limited.

For years, the World Bank and other non-governmental institutions have supported these Unions, financially and technically to build a reputation in the financial market they operate. The Albanian government was primarily interested in growing investments in rural areas, and the absence of the banking sector in these areas made it necessary to authorize Saving and Credit Unions. However, the gap between authorization, support and supervision renders it controversial. On one hand, the government has full credit in the eyes of the international community regarding the authorization of these Savings and Credit Unions as an important step towards free-market economy and a necessity for rural areas in Albania to survive, on another hand, supervision is limited; access to increase capital is limited and government support, now that international support programs have ended, is almost negligent.

This gap and negligence of Albanian government leads to the question of whether the Albanian government passed the law in order to have access to international grants and accomplish another requirement of European Union or whether the Albanian government is still trying to find the most appropriate way to support agriculture industry as an important pillar of our system. Whichever the motive and reason behind it, these institutions are well established in Albania and their contribution in the financial market is very important, therefore, there is a need to support these institutions in increasing their capital and creating a proper credit system.

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<sup>47</sup> Investing in Government Bond or Private Corporate shares



The aim is not to financially support these institutions, but in a market economy the supplier shall allocate the resources in the most efficient way possible in order to meet the demand in the long run and the only way for a financial institution to increase capital is to diversify its portfolio in different investments. Government can technically support these institutions by allowing them to invest in securities and make transactions, or at the very least, help their associations with training and infrastructure.

### **2.2.1 Albanian Savings and Credit Union**

The Albanian Savings and Credit Union<sup>48</sup> was created in January 2002, from the previous Rural Finance Fund founded in 1999 from the Albanian government to support rural areas and they financially and technically support all the associations established in the villages. In 2008, Microfinance Information Exchange, ranked Albanian Savings and Credit Unions among the best institutions that operate in its field in the world. In 2011 they reached a loan portfolio of 2,500 million ALL and only 1.9% of the loans given during the year were considered risky.<sup>49</sup>

#### **Operational Scheme**

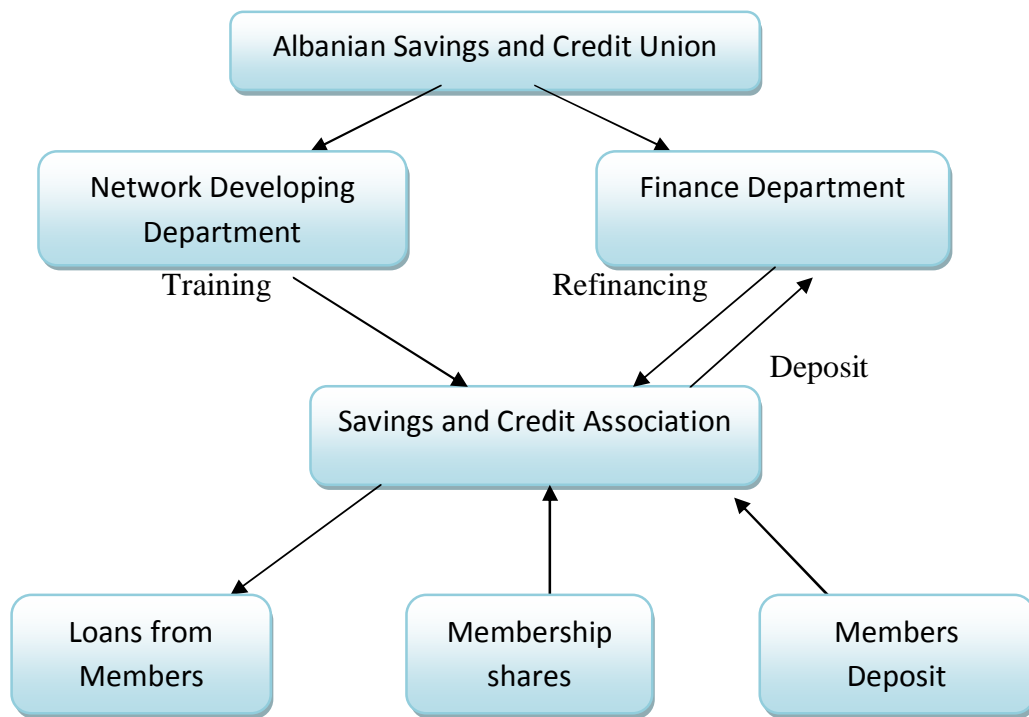
The Albanian Savings and Credit Unions operate in 16 districts and cover 72% of the villages, 1073 out of 1454. Savings and Credit Associations are the main bodies of Savings and Credit Unions and they are established in almost every village in Albania. These unions give credit to the part of the population that cannot afford getting credit from the commercial banks due to the high interest they have established or for lack of collateral.

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<sup>48</sup> Albanian Savings and Credit Union, last visit on May 27, 2012, <http://www.ascunion.org.al/en/index.html>

<sup>49</sup> Albanian Savings and Credit Union, Annual Report 2011, pg 8; last visit on May 24, 2012, [http://www.ascunion.org.al/en/pdf/Annual\\_Report\\_2011.pdf](http://www.ascunion.org.al/en/pdf/Annual_Report_2011.pdf)

**Figure 2:** Operational Scheme



*Source: Albanian Savings and Credit Unions*

Their idea is very simple: they give loans to small farmers and wait for their investment to grow and bear fruits. This scheme helped not only the villagers to build their businesses, invest, and buy new machineries but also the government to make part of the financial banking sector all the remittances that Albanian villagers keep in their houses because these association accept deposits in an appropriate interest rate.

To be entitled to apply and have access to credit, individuals must first be members of the union. All of the Savings and Credit Association, located in 135 main villages, are supported by the Union, first with training of the employees and second with financial advice and refinancing. The policy of the Union is to establish an association in the main villages, which can cover surrounding villages, in order to be near the borrowers and creditors for three main reasons:

- Due to the fact that the collateral required to get a loan from the Union is very small and cannot cover the loan, it is very important that the employees of the Union visit the farmers and supervise production progress in order to reduce the possibility of default.
- The employees collect the monthly payments and deposit them to the Union established in that particular district.
- The employees are part of the community and due to the fact that they are familiar with the land, mentality, and tradition their feedback is very useful.

Through frequent inspection and supervision, training and tests, these Associations ensure an efficient and effective staff, therefore an efficient and effective credit.

### Products and Interest Rates

Micro credit is the main financial product that Savings and Credit Association offer to individual farmers and small and medium enterprises.

**Table 2:** Products and Terms

Products	Terms	
	Annual Interest (%)	Duration
Micro credit for individuals	16 %	up to 5 years
Micro credit for small and medium enterprises	17%	up to 7 years

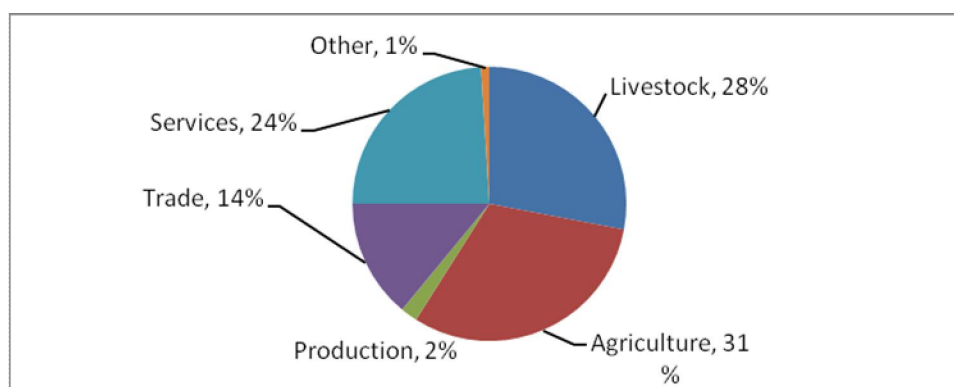
*Source: Albanian Savings and Credit Union*

The maximum amount of loans for individuals is 1,000,000 Albanian ALL<sup>50</sup> and for small and medium enterprises the maximum amount is up to 3,000,000 ALL. The interest rate has no difference with the interest rate offered by Pro Credit Bank but duration and requirements

<sup>50</sup> 1 USD= 110.34 ALL USD-ALL rate for 23.05.2012 [www.bankofalbania.org](http://www.bankofalbania.org)

makes it more favorable for SME-s and farmers. The duration up to 5 or 7 years means that monthly payments will be lower and affordable by SME-s and farmers when they are in the stage of starting their business. In order to have access to microcredit, the collateral must not be necessary and usually does not cover the total amount of the loan.

**Graph 3: Utilization of Loans**



*Source: Albanian Savings and Credit Union<sup>51</sup>*

Almost everything that farmers and small entrepreneurs can afford is used as collateral. This collateral remains in possession of borrowers but the employees of the Association must visit every client periodically. During 2011, 31,500 farmers<sup>52</sup> were financially assisted by this Union and according to the Minister of Agriculture and Consumer Protection in Albania, during 2011, imports for machineries used in this industry increased by 10%,<sup>53</sup> which is a good indicator for investments in this industry.

<sup>51</sup> Albanian Savings and Credit Union, "Annual Report 2011": 11, last visit on May 10, 2012, [http://www.ascunion.org.al/en/pdf/Annual\\_Report\\_2011.pdf](http://www.ascunion.org.al/en/pdf/Annual_Report_2011.pdf)

<sup>52</sup> Albanian Saving and Credit Union, last visit on May 28, 2012, <http://www.ascunion.org.al/en/pdf/Newsletter.pdf>

<sup>53</sup> Ministry of Agriculture and Consumer Protection in Albania <http://www.mbumk.gov.al>

Most of the loans are short-term loans and they are intended for purchasing new machinery or working capital, and only after repaying the first loan they can apply for another loan in a larger amount for a longer period of time if needed.

They are governed by a Committee and the head of the Committee reports to the Bank of Albania every six months the supervision rates on an individual and collective basis and also to the Unions every month.<sup>54</sup>

Even though these Associations have their part in the financial market and they target different groups of people from commercial banks, the collaboration between the two institutions is getting stronger as the demand for loans in the long-run is increasing. This co-operation is profitable for both parties. Savings and Credit Unions are acting as a guarantee for commercial banks to facilitate access to credit for their clients but this service is only provided to clients with credit history in the Union.

This cooperation between these financial institutions shows that commercial banks are willing to facilitate access to credit if a third party, a separate legal entity, can guarantee, at a certain degree, to control the borrower on a daily basis and the borrower's credit history has been tested. The idea of these Unions acting as field warehouse managers, to link financial institutions with the private sector requires further investigation, but this cooperation fosters optimism in introducing **field warehouses** in Albania.

### ***Impact on economy***

During these past 10 years Savings and Credit Associations have developed considerably and they have a positive impact on the Albanian economy. Between 2000 and 2008 the fruit

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<sup>54</sup> Regulation on the Supervision of Savings and Credit Association and their Unions; Article 3, Final Provision

production increased by 70%, animal production by 21%, and arable crops by 10%<sup>55</sup>, but still not sufficiently due to the fact that most of the agricultural products in Albania are imported from European Union countries and for years the trade balance of the country has been negative, meaning that the imports exceed exports.<sup>56</sup> Although the aim is not to reduce imports but to increase exports, it is the duty of the Albanian Government to implement regulations to make the domestic products more competitive and use the potential of the country to increase exports in agriculture products.

Saving and Credit Association remains an important part of the financial sector of Albania, they help small and medium businesses grow and once they have enough capacity the commercial banks can fill their needs for credit but these Associations have a limited credit portfolio due to the limited capital, so there is a need for the Albanian government to directly or indirectly financially support these Associations to increase their capital. The history in Albania has shown that good laws are not enough but the enforcement of law and the efficient support of the government is needed to protect individuals, institutions, businesses, investors, in order to have a sustainable financial market and be competitive in the regional or international market.

## **Conclusion and recommendations**

Analyzing Albanian economy is very complex. The country is still recovering from the harshest communist regime and the subsequent 1997 collapse of the pyramid investment scheme, and for this reason, a wide variety of factors must be taken into consideration when analyzing

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<sup>55</sup> European Commission report- Agriculture and Rural Development, last visit on May 28, 2012, <http://ec.europa.eu>

<sup>56</sup> European Commission report- Albania Trade with the world, last visit on May 28, 2012, <http://trade.ec.europa.eu>

economic development in Albania. This study was focused on evaluating the role of microfinance to fight poverty and the role of financial institutions in expanding access to credit in urban and rural areas in Albania.

Despite new laws and regulations adopted by the government, indicators show that Albania is falling behind in protecting the investor and implementing a well-functioning system. Commercial banks are not willing to expand access to credit and savings and credit unions, regardless of their will, and faith cannot be more efficient as their capital is limited. High interest rates supported by collateral requirement indeed prevent SME-s and farmers to rely on commercial banks services.

The research shows that Collateral Law, as the basic legal framework regulating secured charges is not harmonized with the Civil Code and Bankruptcy Act that regulated secured charges prior to this law, and without further support savings and credit unions cannot grow and develop to respond to the demand in long run.

Few researchers have explained the importance of microfinance and microfinance institutions in Albania and analyzed Collateral Law as the most important legal infrastructure implemented by the government to support and facilitate access to credit. Despite this positive reform to achieve a process of self-sustained economic development, analysis reveals that further improvements are necessary for the Albanian economy to grow and achieve sustainability in the long run.

Analysis shows that the government and the law fail in two aspects:

*Enforcement-* despite all efforts to establish a strong administration, Albanian judicial system remains weak. This weakness leads to more corruption and lack of trust in the possibilities that the country can offer.

*Protecting investors-* analysis has shown that laws that regulate securing charges are not harmonized and priorities of secured creditor are not well defined. This uncertainty affects the role of commercial banks in expanding access to credit.

Law enforcement is primarily the responsibility of the government and to implement all the necessary reforms to build trust in government institutions will take a long time, but is the first step for Albania towards a free market economy. There are basically two ways Albania can facilitate access to credit in the **long run**: *first*, create a stronger legal system to protect investors and *second*, further support savings and credit unions to increase their capital, therefore their credit portfolio.

In the meantime, while analyzing all the relevant factors that prevent commercial banks from facilitating access to credit, leads us to the possibility to introduce *field warehouses* as an efficient way to secure investors and make the process less costly. Field warehouses can serve not only as an immediate solution, easy to implement and easy to control but can also serve to build trust between financial institutions and the private sector. If a third neutral party controls the collateral, and the warehouse receipt entitles the creditor to obtain **immediate ownership** in case of default, which make the process less costly; they will start cooperation and facilitate access to credit.



Even though, the trauma of pyramid schemes makes it difficult to introduce a new financial product, the economic system in Albania desperately needs these new business models to be able to grow and develop.

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## LIST OF INTERVIEWED PERSONS

(In alphabetical order)

Ms. Alma	Kurti	Branch Director	Raiffeisen Bank
Ms. Anisa	Doko	Finance Officer	Albanian Saving and Credit Union, Berat, Albania
Ms. Artemida	Mileti	Finance Officer in Treasury Department	Intesa San Paolo Bank, Tirane , Albania
Mr. Ermal	Hoxha	Expert on Statistics	Ministry of Agriculture, Food and Consumer Protection
Mr. Rezart	Molla	Portfolio Manager	Bank of Albania