



# ALBANIA SOCIAL PERFORMANCE COUNTRY REPORT

CERISE



This report was drafted with the support of the Social Performance Fund, financed by the Ford Foundation and managed by the Microfinance Centre.

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## SECTOR OVERVIEW

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- Product range
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## SOCIAL GOALS

- Our members are working towards clear social goals
- Our members target a range of client groups

## PRODUCTS AND SERVICES

- Our members deliver a range of financial services
- Product design

## CLIENT PROTECTION

- Our members understand their clients' needs, not just their "wants"
- Our members work to prevent client over-indebtedness

## PROTECTING AND MANAGING STAFF

- Our members protect and support staff
- Social performance factors considered for employee appraisals
- Our members are tackling the gender divide

## RESPONSIBILITY TO THE COMMUNITY

- Our members care about their impact on the community

# Albania Social Performance Country Report 2017

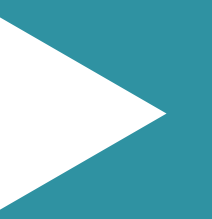
This report details the state of SPM practice among network members in key operational and strategic areas. It is based on self-reported SPI4 data (verified by networks), and discusses both successes and challenges alike. This report was developed with the support of the Social Performance Fund, financed by the Ford Foundation and managed by the Microfinance Centre.

# EXECUTIVE SUMMARY

Main highlights

Challenges

Looking ahead



## EXECUTIVE SUMMARY

The topic of social performance management has always been in the attention of SH.I.M, (Shoqata e Institucioneve të Mikrofinancës) because many of its member organizations pursue not only financial, but also social goals through their missions. This report has been prepared by BAGAVIKI Consulting hired by SH.I.M, (Shoqata e Institucioneve të Mikrofinancës) based on the information received from 6 credit member organizations registered in Albania such as: Agro Social Fund; NOA; FAF; UniFin; Fondi BESA and FedInvest. It aims to present the current status of social performance management in the country by non-bank financial institutions that carry out lending activities. The data reflects the status by the end of the year 2016.

## MAIN HIGHLIGHTS

- Financial sector in Albania is fully regulated and all institutions involved in lending are licensed by the Central Bank. Credit organizations are the second biggest player in the financial market after the banks, with total assets amounting to ALL 17.9 billion comprising 1.3% of the sector and loan portfolio amounting ALL 16.3 billion comprising 3% of the sector;
- Institutions largely differ in size, geographical outreach, product range, target clients, but together they are represented in all regions of Albania, with 50% of branches located outside of urban areas, thus serving all communities of the country including border and remote areas;
- The gender balance needs to be improved in terms of client outreach (28% women clients) and in terms of employees is well-

maintained (47% women employees, 40% women represented in management), though the challenge remains at the board level, where only 30% are women;

- All institutions have solid mechanisms for client complaints and problem resolution. This is also a high priority for the regulator, which has developed strong regulations around consumer protection and introduced the institute of Financial System Mediator;
- Organizations pay big attention on protecting and supporting staff members with clear HR policies (100% of respondents), permanent trainings (70%) and appraisal mechanisms based on which employees can achieve promotions and raises (65%). They are willing to hire graduates with no previous experience.
- Several organizations emphasized that they hire employees from needy families as well as youth with no previous work experience.

## CHALLENGES

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- Many organizations target low-income and poor population as their priority clients, however there is no unified approach to measure poverty outreach. Organizations try to use their own measurements against different indicators (e.g. National Poverty Line, Consumer basket, GNI per capita) which make the data around this topic non-comparable;
- Though there are strong internal mechanisms in place to prevent client over-indebtedness, there is no comprehensive country-wide study around this topic, which could help financial service providers be better informed when designing their

products and strategies;

- Many of the members provide also non-financial services and support the communities in different forms, but very few of them have actually measured the impact that such projects are having on the community and on the organizations themselves.

## LOOKING AHEAD

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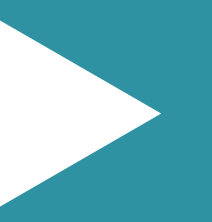
**Structural reforms:** New regulatory requirements on responsible lending, managing foreign capital and foreign currency loans, stricter capital requirements, restructuring refinancing, and hedging policy upgrades are now being implemented in banks and non-bank credit organizations (NBCOs) which is recommended by the regulators to undertake best efforts to comply with in order to keep their place in the market;

**Responsible Finance:** SH.I.M members should look ahead of becoming responsible lenders and work out value added products and services that will meet the basic needs and capabilities of financial service consumers (local currency lending, long term savings and investments, sharing consumer risks and challenges, repairing client trust);

**Financial awareness and literacy:** More can be done to organize and implement a strategic vision starting from the bottom to top in all levels of financial market stakeholders from consumers to regulatory bodies.



# SECTOR OVERVIEW



## SECTOR OVERVIEW

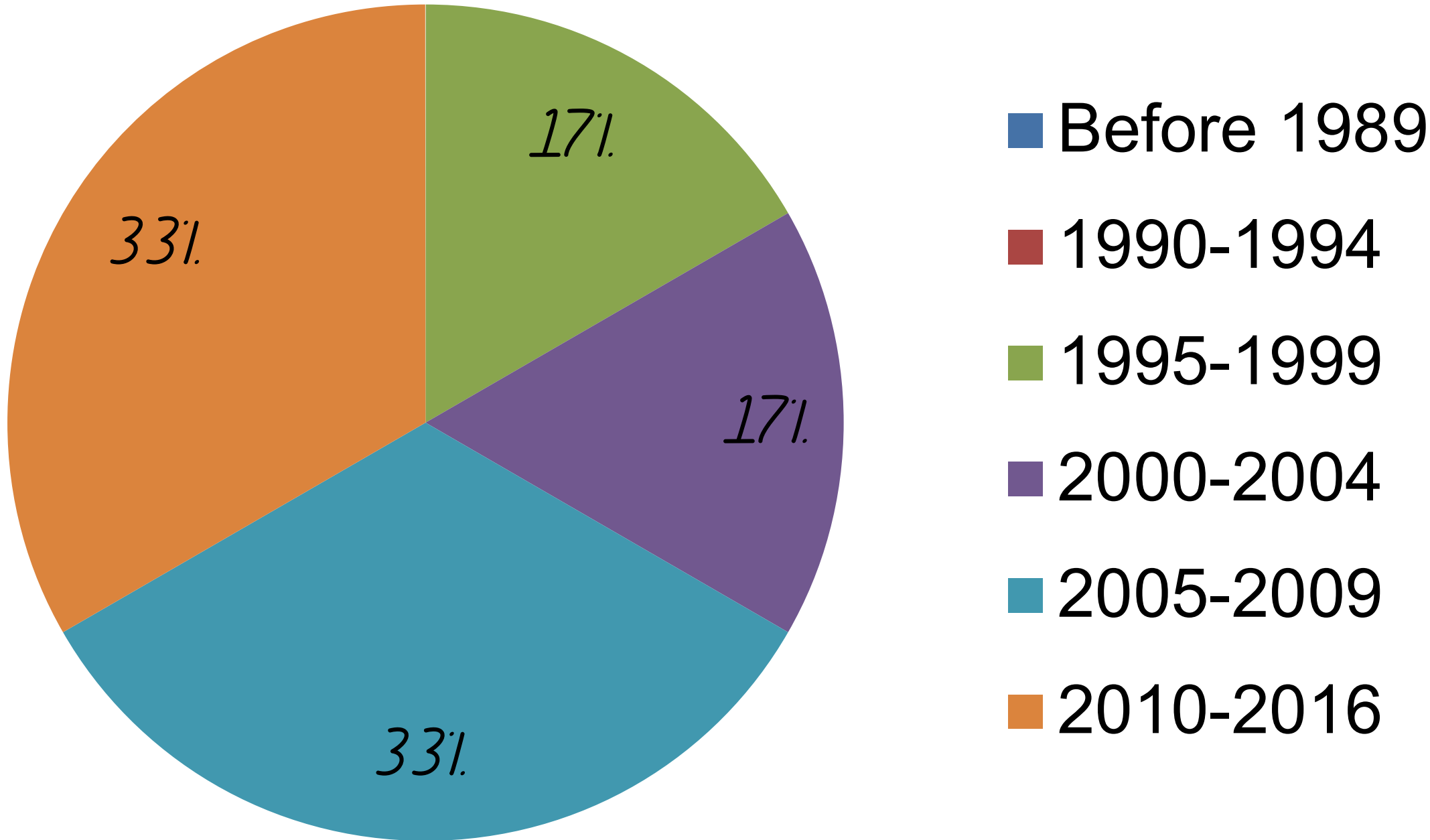
As at end-2016, the structure of the banking and financial system in Albania consisted in 16 banks, 28 non-bank financial institutions (NBFIs), 428 foreign exchange bureaus, 13 savings and loan associations and 2 unions of savings and loan associations. At the end of 2016, banks operate through 493 branches / agencies across the country, while only one bank continues to have a branch outside the territory of the Republic of Albania. The geographical distribution of bank branches/agencies include almost the entire territory of Albania, while a great concentration of branches and agencies is evidenced in Tirana (42%), where the population concentration is greater (29%). The distribution of bank branches/agencies by prefectures is also in proportion with the population.

During the past two decades the financial sector in Albania has passed a huge phase of transition and development and evolved into a sound system regulated by the Central Bank of Albania, which has been acting as the single financial supervisory and regulatory authority.

The microfinance sector in Albania started to develop in late-90s, when several international donor organizations established local foundations to support the development of the economy. Among them were USAID, FEFAD, OXFAM, World Vision, Save the Children, etc. All these local foundations were operating as NGO's until the law on Credit Organizations was adopted by the government to regulate the operations of non-bank financial institutions which are involved in lending activities. Such a decision was pushed by the fact that many of the organizations had already evolved into strong and stable financial institutions and become visible in the financial market.

As a result, the microfinance sector in Albania is currently fully regulated by the Central Bank of Albania. As of the end of 2016, the financial sector in Albania was represented by banks, credit organizations, insurance companies, investment companies, exchange offices and money transfer companies. Total assets of all credit organizations amounting to ALL 17.9 billion comprise 1.3% of the sector and loan portfolio amounting ALL 16.3 billion comprising 3% of the sector.

Year Microfinance Operations Began



## **MEMBER OVERVIEW**

Product range

Geographical coverage

Financial performance



## MEMBER OVERVIEW

SH.I.M (Shoqata e Institucioneve të Mikrofinancës) was established in 2006 by its 6 founding members as a voluntary union of credit organizations operating in the country. Currently SH.I.M has 6 member credit organizations.

6 (Agro Social Fund; NOA; FAF; UniFin; Fondi BESA and FedInvest)	ALL 17,934,763,583	ALL 16,267,403,486	62,016	173
<b>MEMBERS</b>	<b>TOTAL ASSETS</b>	<b>TOTAL PORTFOLIO</b>	<b>ACTIVE CLIENTS</b>	<b>BRANCH OFFICES</b>

Clients include individual borrowers, farmers involved in agricultural activities, small and medium sized enterprises. The range of products includes different types of consumer loans, loans for agricultural activities, SMEs and housing loans, etc.

In terms of legal form, credit organizations are either registered as Limited Liability Companies or Closed Joint-Stock Companies. Two institutions are registered cooperative/credit union and only 1 institution in the market is registered as a NBFi organization.

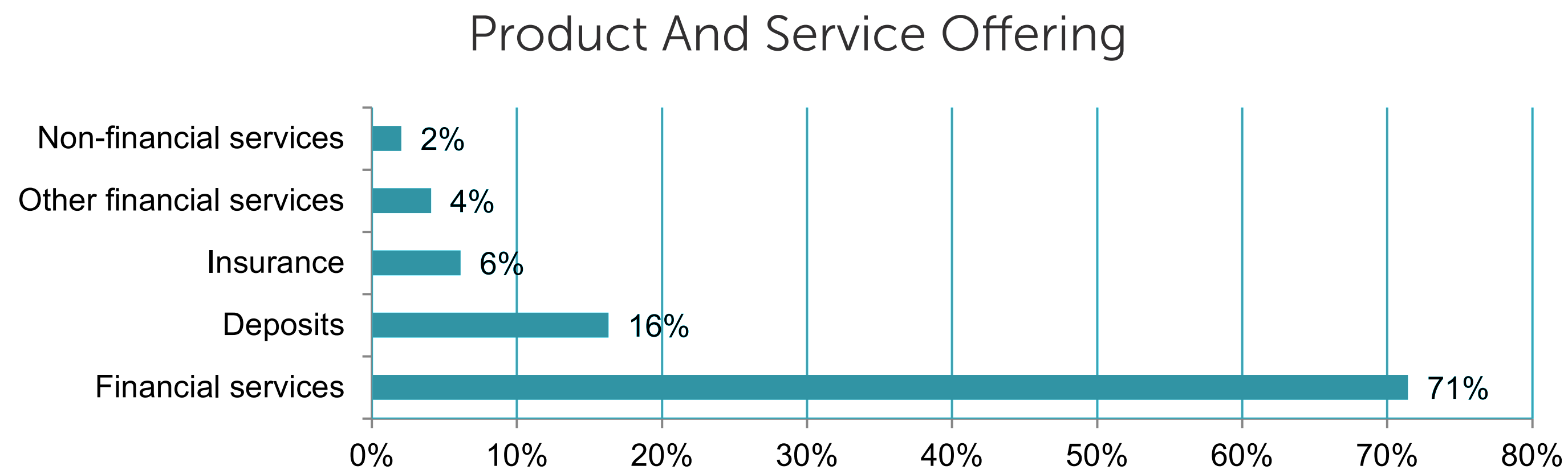
All members of regulatory status of SH.I.M are 100% regulated by the Center Bank of Albania.

## PRODUCT RANGE

In Albania credit organizations are allowed to take deposits, but their main activities are focused on lending operations. Some institutions offer also non-financial services to their clients in the form of trainings focused on different aspects of financial education, as well as business planning and support to SME development.

Some of the loan products are attached with insurance products. At the moment insurance is mainly offered as a voluntary option, though some of the institutions have recently introduced also mandatory insurance for certain products. 2 institutions out of 6 have compulsory insurance, 3 offer voluntary insurance products in collaboration with local insurance companies. Mandatory insurance is only attached to mortgage lending products and purchase of cars that are offered by some of the institutions and refer to life/accidents and real estate/inventory insurance products.

There are no agricultural insurance products available in the market, however this become a hot topic in the country and there are some tentative by some international donors organizations which are looking currently to develop an agricultural insurance.



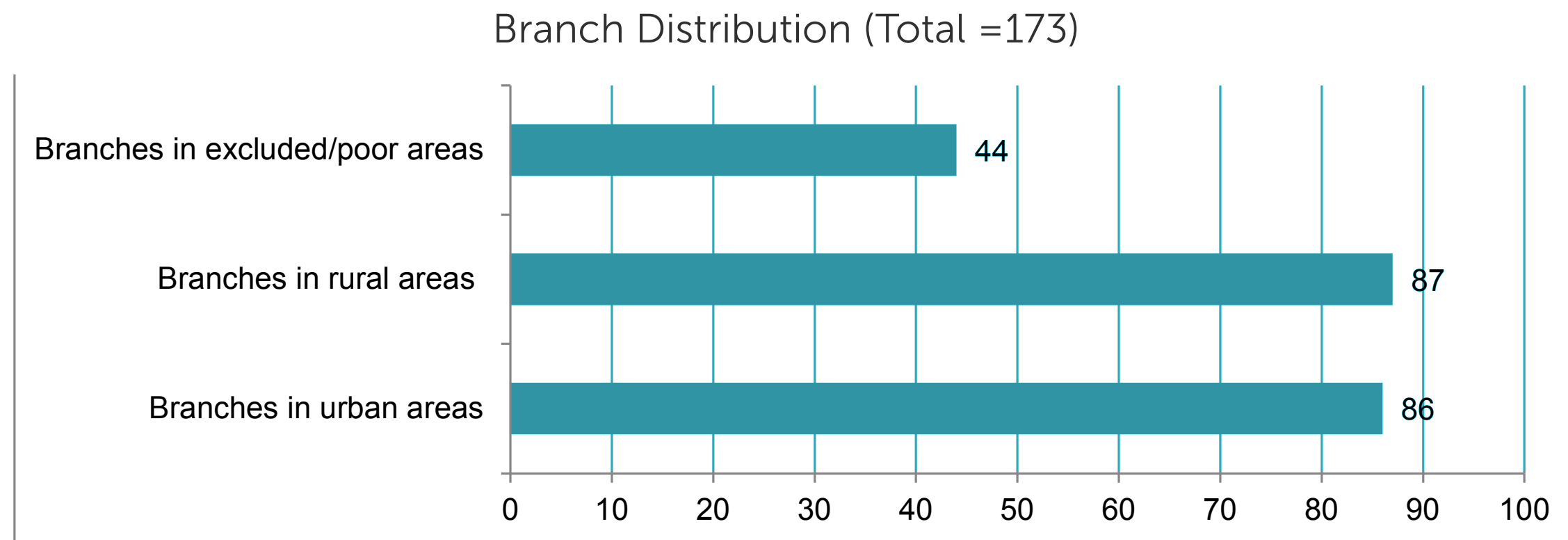
## GEOGRAPHICAL COVERAGE

In terms of geographical coverage, the outreach of SH.I.M's member organizations is quite well-developed, as the branch offices are represented in all the regions of Albania and cover also most remote and border villages, which generally don't have access to traditional banking services. By the end of the year 2016 respondents together had 173 branch offices, of which 87 branches or 50% located in rural areas and 86 branches or other 50% located in the urban areas. Of those 44 branches or 25% are located in the poor areas. Some of the branches in the regional cities serve all surrounding villages, loan officers are usually working directly in the field in close collaboration with local communities.

## FINANCIAL PERFORMANCE

Institutions are very different in size, outreach, efficiency and profitability. Thus, their financial performance also varies a lot mostly driven by their strategic objectives, vision, geographical outreach, target clients and the source of funding. Though many foreign investors are active in the country, however local currency funding is widely available, and hedging mechanisms for foreign currency funding are largely used in the market.

Main indicators related to financial performance are presented in the following table:



## MAIN NUMBERS

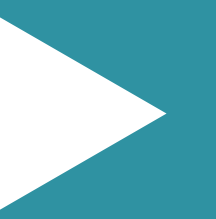
FINANCIAL PERFORMANCE	2016
Client Outreach (gross)	62,016
Client Outreach (average)	10,336
Loan portfolio (gross, ALL)	16,267,403,486
Loan portfolio (average, ALL)	2,711,233,914
PAR>30 days (average %)	5.88%
Write-offs	1.86%
Women clients (average%)	28.00%
Rural clients (average %)	42.00%
Financial Expenses Ratio (average %)	7.63%
Operating Expense Ratio (average %)	13.30%
Portfolio yield (average %)	22.38%
Loan Loss Expense Ration	1.88%
Return on Assets (%)	2.26%
Return on Equity (%)	11.37%



## SOCIAL GOALS

Our members are working towards clear social goals

Our members target a range of client groups



### OUR MEMBERS ARE WORKING TOWARDS CLEAR SOCIAL GOALS

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Many credit organizations have clearly outlined social goals which are defined in their mission statements. The following goals appear in the statements of several organizations using different wordings:

- Deepening financial inclusion accessible financial services (80%);
- Improving the quality of life for low-income families (50%);
- Poverty alleviation (30%).

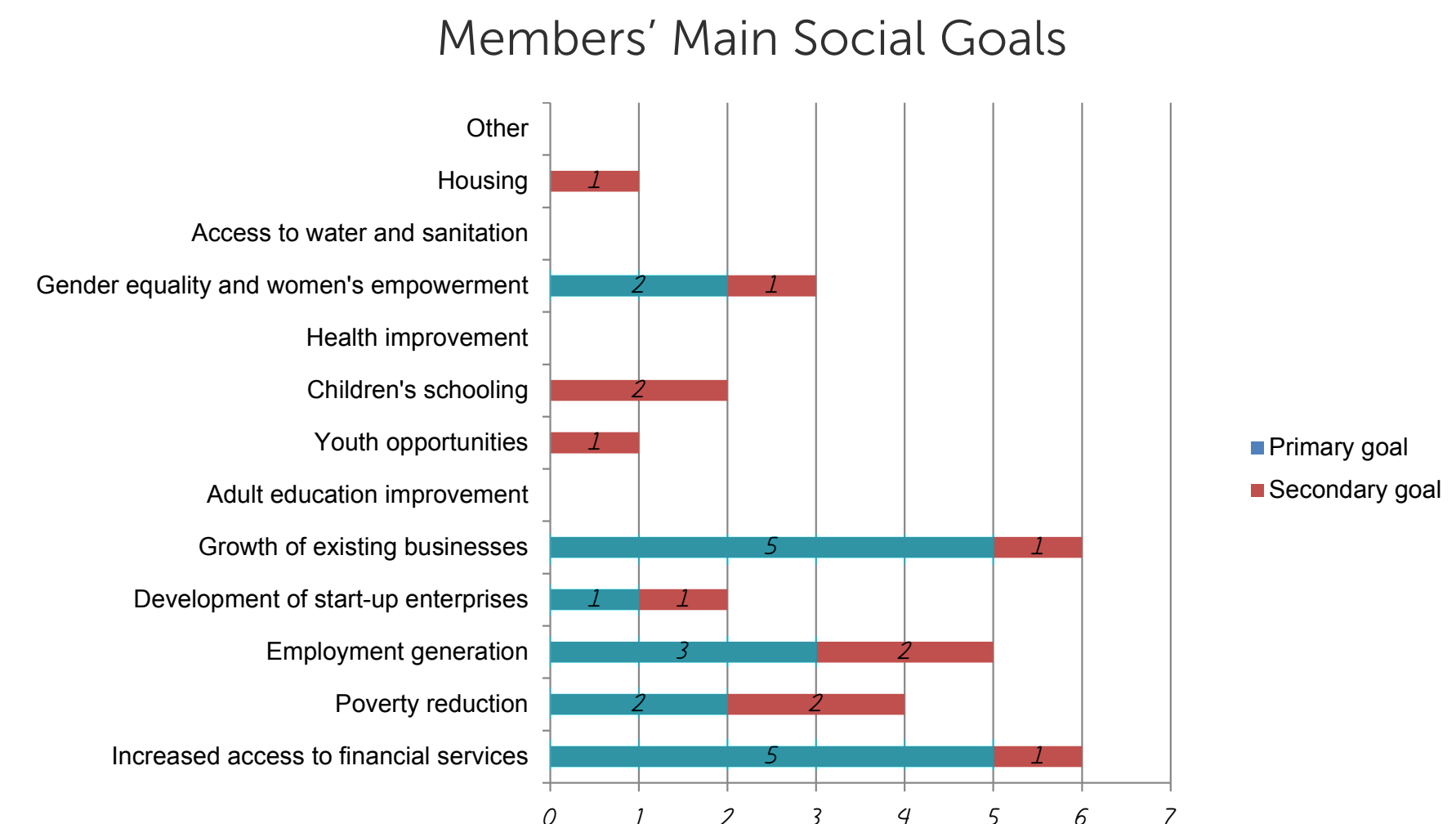
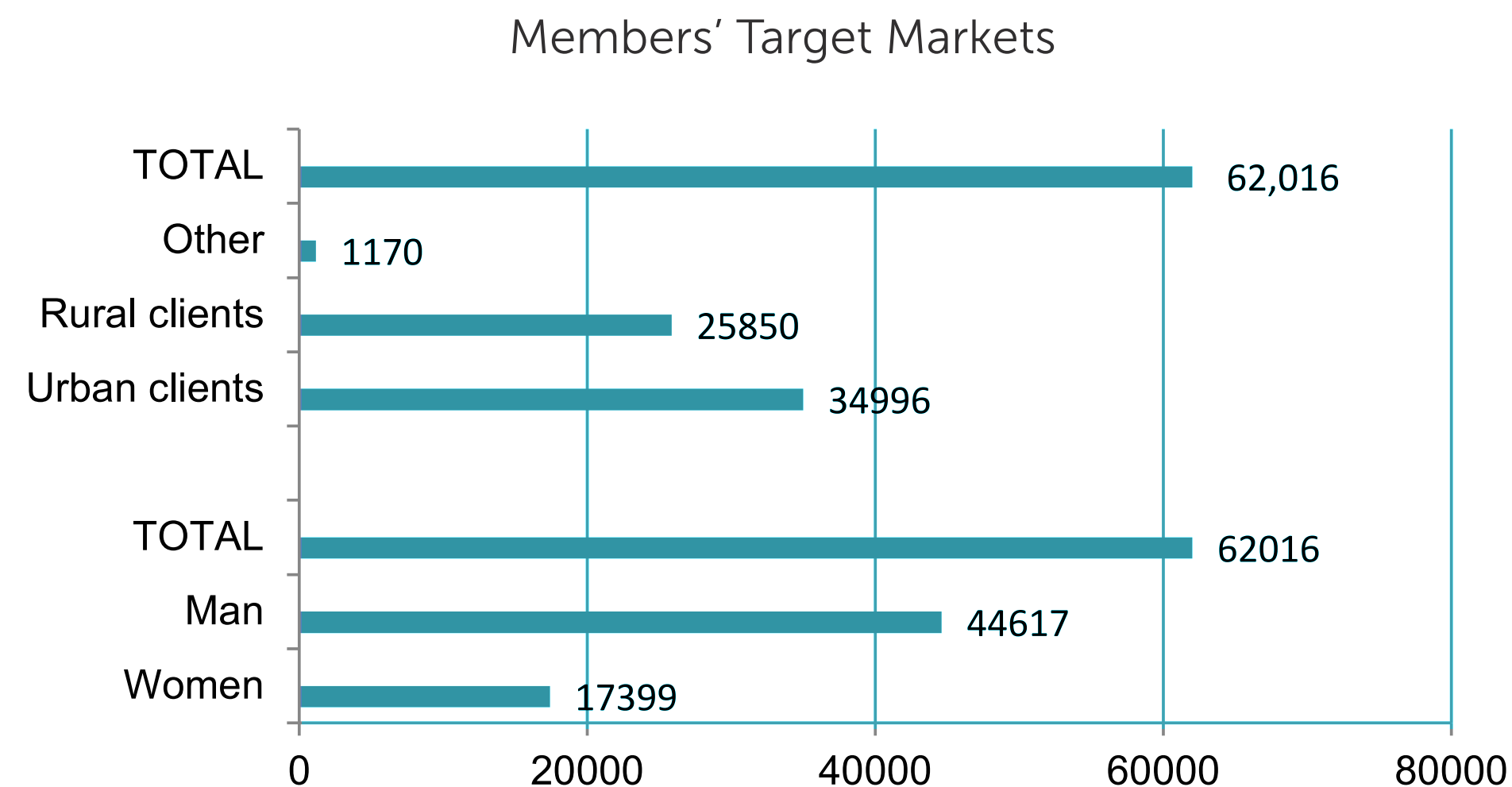
Other social goals mentioned in the mission statements of members include supporting sustainable agriculture development, development of start-up enterprises, establishing competitive environment for SMEs, creating jobs, promoting social justice and human dignity, helping people build assets etc.

The chart below represents what other social goals our members pursue through their activities that are clearly highlighted in their strategies. Strategy documents and business plans set clear indicators on annual targets around different financial and social goals, among them geographical outreach, client profiles, product ranges, profit margins, PAR levels etc.

The interviewed clients confirm that they monitor regularly social objectives based on reviews of organizational strategy and monitoring of business plans. Only one organization has been monitored the support to the excluded population. This organization has been assisted for setting up a monitoring plan from the Microfinance Center – MFC.

## OUR MEMBERS TARGET A RANGE OF CLIENT GROUPS

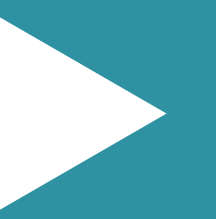
Members provide services to all layers of population, including people living in both rural and urban areas and with no gender discrimination. However, loan products are available only for adults, even though some of the products are used for the needs of adolescents and youth below 18. Rural areas comprise 25,850 clients or 42%; urban areas comprise 34,996 clients or 56% and other comprise 1,170 clients or 2%.



Some of the institutions pay special attention on retired people and low-income entrepreneurs as a specific target group. Women comprise 17,399 or 28% of total active clients, and man comprises 44,617 or 72% of total client base. Percentage of women clients is not adjacent to the total of women population, which comprised 51% so more needs to be done on women client base.

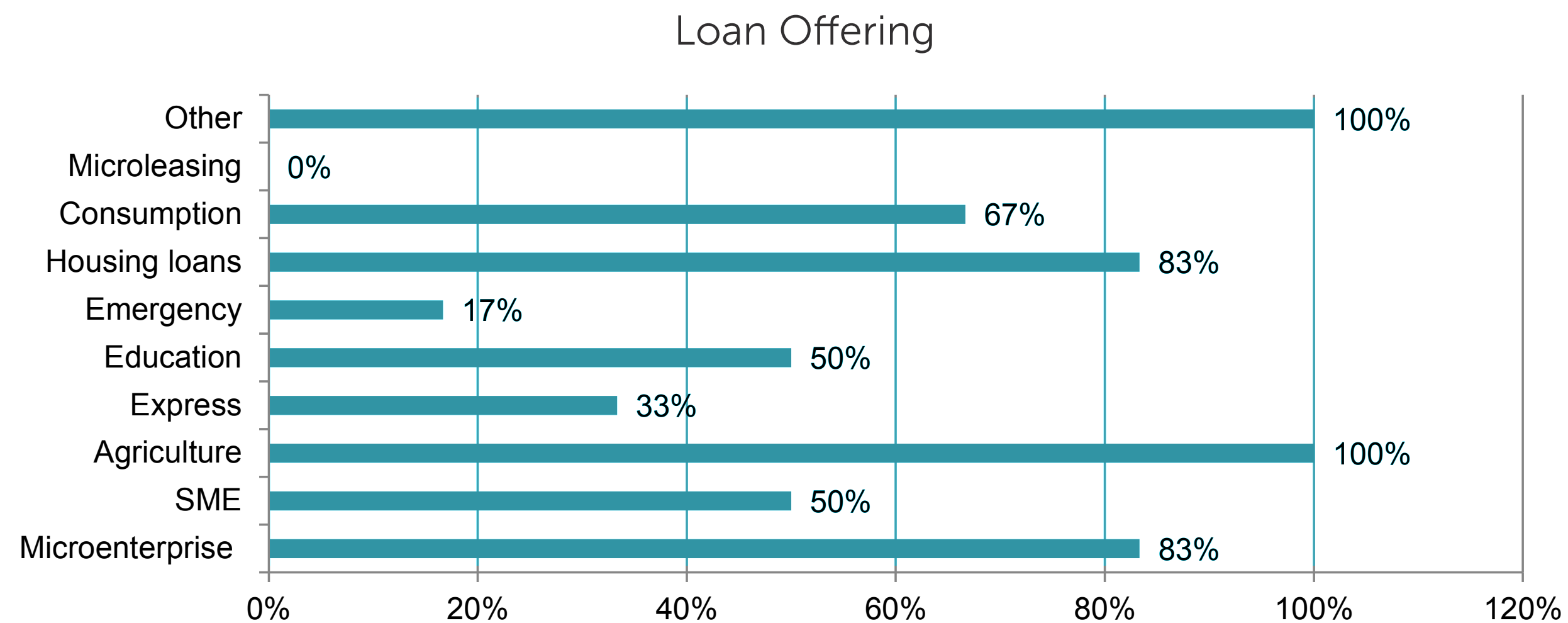
## PRODUCTS AND SERVICES

Our members deliver a range of financial services  
Product design



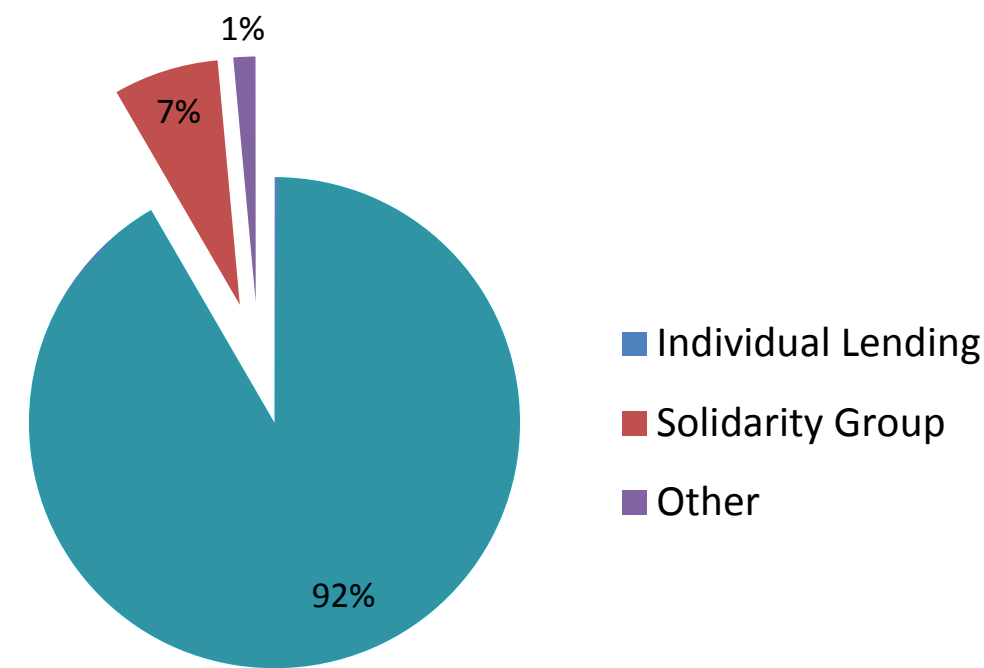
## OUR MEMBERS DELIVER A RANGE OF FINANCIAL SERVICES

The range of loan products available in the market is very diverse and most often is specific to the needs of the target clientele. Development of new products and services are mostly informed by the needs that the clients have been showing in the market. Though organizations do not annually carry out a full formal market research with all of its components (mainly due to the price of such an activity), but separate small-size research is carried out at least annually around target clients characteristics and needs/preferences for products (100% of respondents), and around delivery channels/barriers to access products and services (90% of respondents). The feedback is also collected about the satisfaction on current products mainly through communication between clients and loan officers. If several years ago majority of the market share was for micro-loans, agriculture loans and small SME loans, during the recent years many of the organizations introduced different types of consumption loans and started piloting housing- related products, including housing microfinance and mortgages.

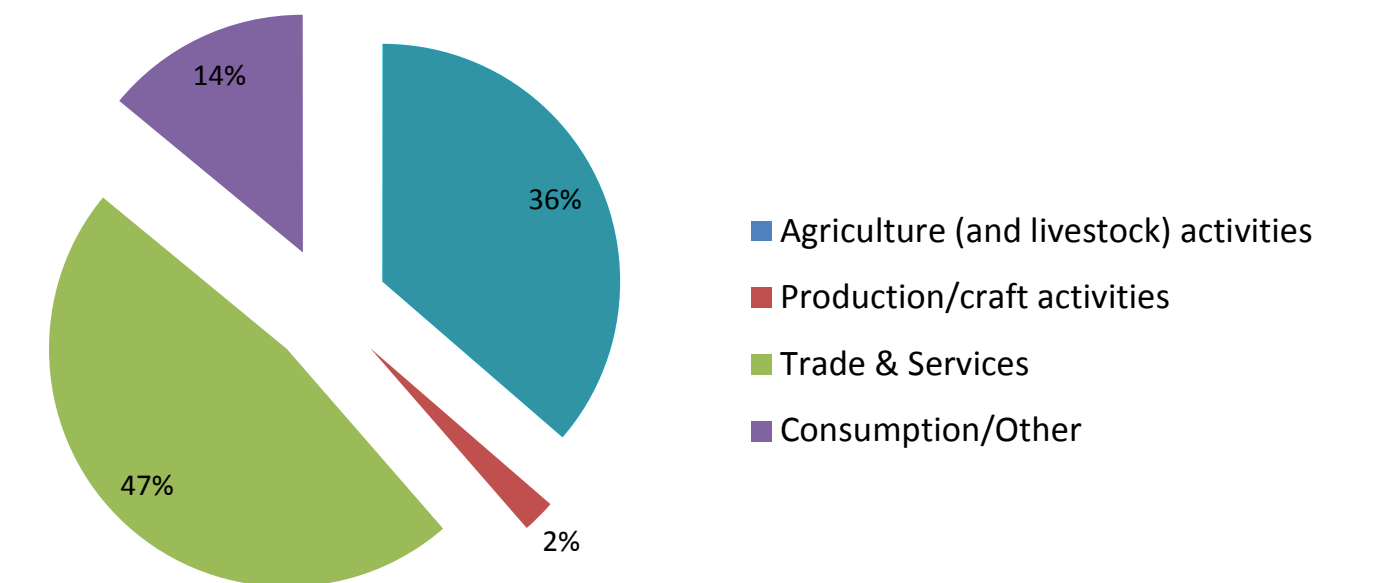


As of the end of 2016 total number of outstanding loans amount to 62,016, with total gross loan portfolio of ALL 16.3 billion or 120.5 MIO Euro. 42% of total loan portfolio has been disbursed in rural areas. If several years ago when microfinance was just evolving, the share of group loans were high, currently they comprise 15% of total portfolio, as organizations move towards individual lending as more preferable lending method.

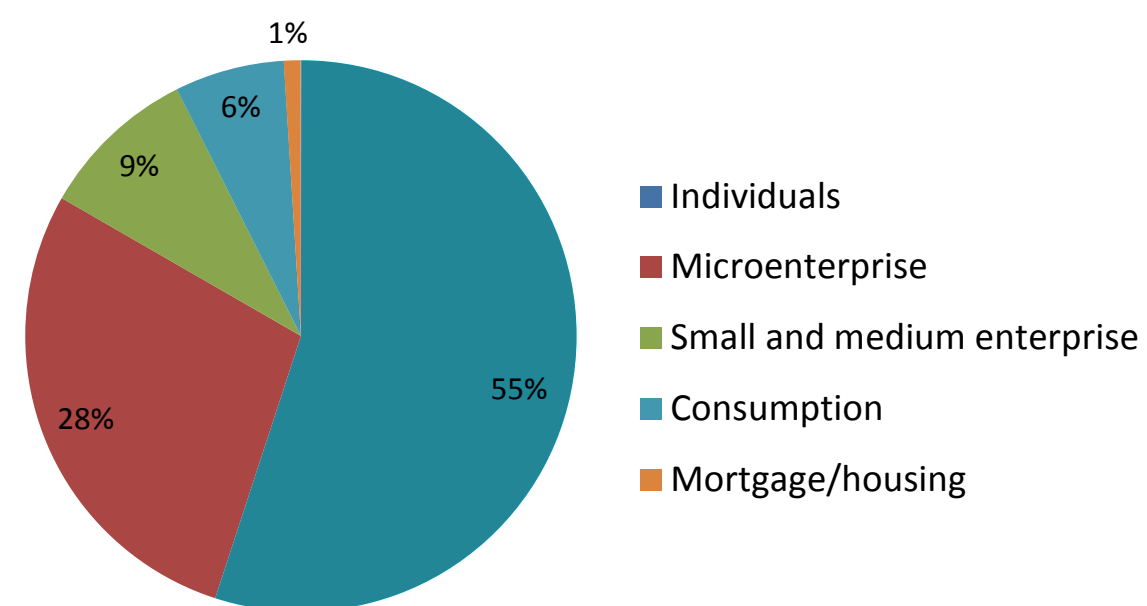
LENDING METHOD



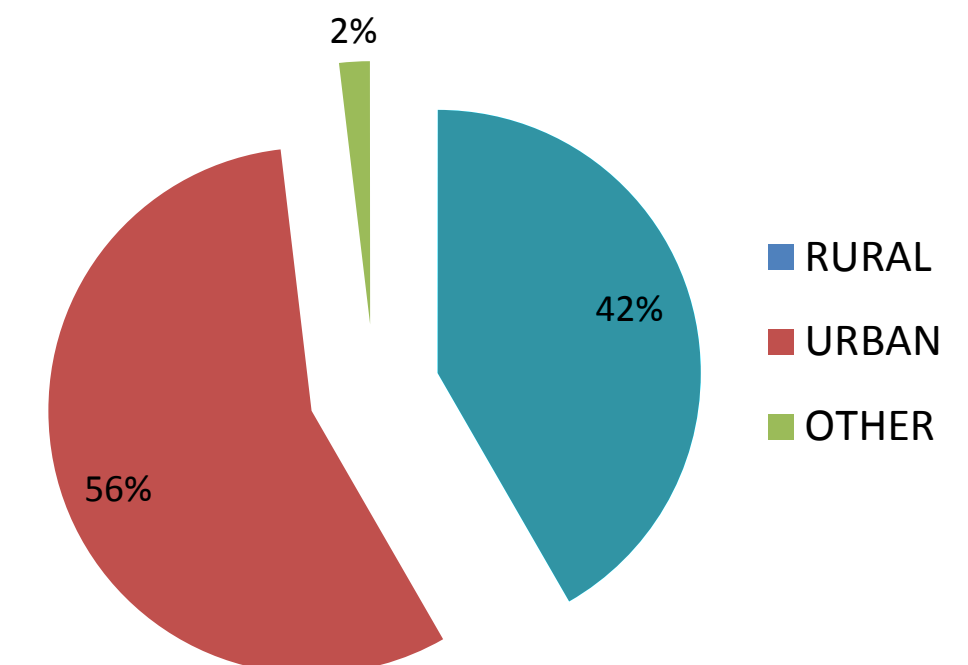
SECTOR



LOAN CATEGORIES



RURAL vs URBAN



## PRODUCT DESIGN

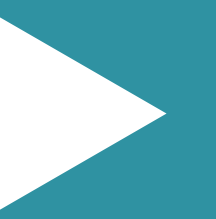
When designing the loan products, all institutions take into consideration target client's preferences for products as well as their characteristics. All organizations pay attention on preferences for delivery channels and check out potential barriers to access products. Most often there is no formal market research carried out for each and every products, however client-level research is done through non-formal ways. This information is used not only to develop new products, but also to improve the existing ones.



## CLIENT PROTECTION

Our members understand their clients' needs, not just their "wants"

Our members work to prevent client over-indebtedness





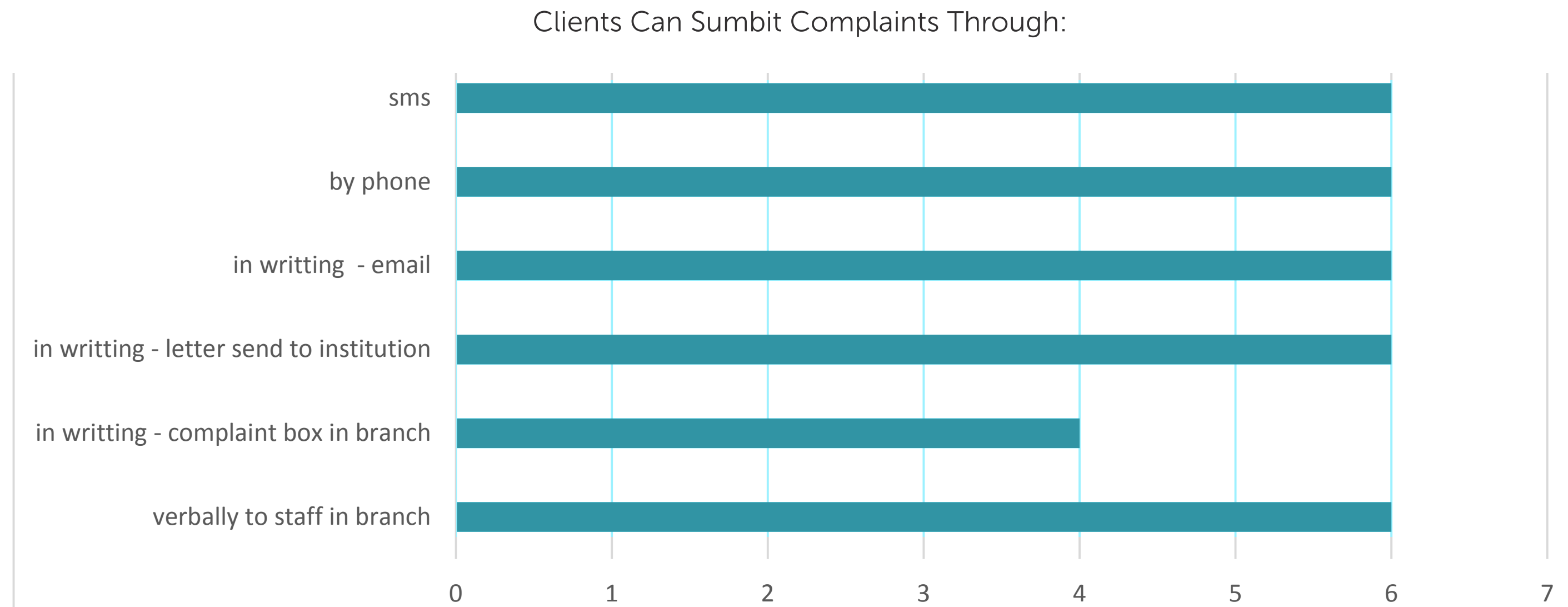
### OUR MEMBERS UNDERSTAND THEIR CLIENTS' NEEDS, NOT JUST THEIR "WANTS"

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All institutions have solid complaint resolution mechanisms in place, which is also driven by the fact that the national regulator pays a big attention to this aspect of the operations of all financial institutions. There is a separate unit at Central Bank of Albanian dealing with client protection issues and a number of regulations have been issued to protect clients especially when dealing with consumer loans.

Therefore, all procedures at MFIs are aligned with the local regulations and contain detailed mechanisms around client complaint submissions and complaint resolutions. Based on the national legislation and regulations, all clients are informed about their right to complain before signing the loan agreement. Institutions train their staff on how to handle complaints in line with their internal policies. On average, according to the internal procedures, complaints should be resolved in 10 days. The information on how to complain is included in the contracts is displayed in branch offices, on websites and is communicated verbally by the field staff before signing the loan contract. During 2016, 19 complaints have been received by respondents in formal ways, out of which 17 have been resolved.

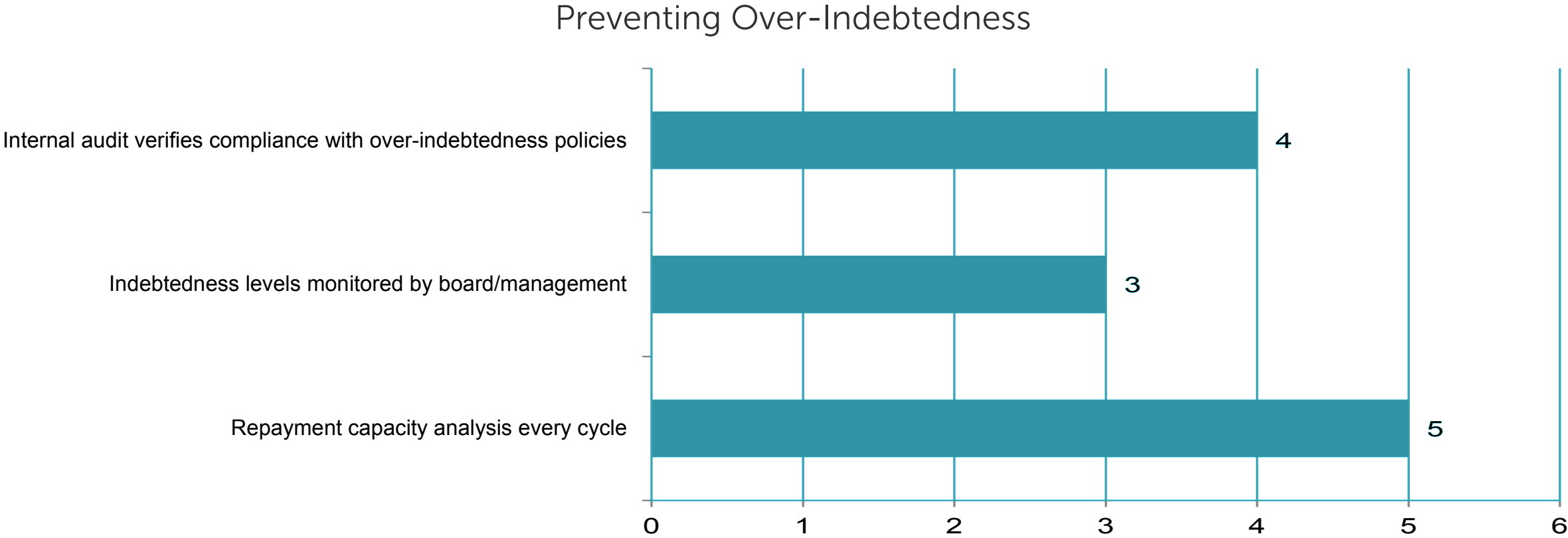
Though no separate surveys have been conducted around client satisfaction, however client feedback is collected in every institution through non-formal ways, mostly via the communication between loan officers and the clients.



## OUR MEMBERS WORK TO PREVENT CLIENT OVER-INDEBTEDNESS

Institutions pay considerable attention to prevent client over-indebtedness, which is also in the center of their attention. All respondents mentioned that their institutions fully disclose to the clients all prices, installments, terms and conditions of all financial products, including all charges and fees, associated prices, penalties, linked products, 3rd party fees, and whether those can change over time. Though disclosing annual effective interest rates is mandatory by law and many of the organizations mention APRs in all their agreements. All credit organizations except one mentioned that they have a separate policy describing acceptable pledges of collateral and has clear guidelines for how collateral is registered and valued. National regulations have clear standards on communicating the terms and conditions of loan agreements with clients, which should be done individually with every client before signing the agreement.

4 out of 6 organizations insure internal audit verification compliance with over-indebtedness policies; 3 out of 6 insure indebtedness levels monitoring by board/management and 5 out of 6 insure repayment capacity analysis every cycle. Though no separate surveys have been conducted around client satisfaction, however client feedback is collected in every institution through non-formal ways, mostly via the communication between loan officers and the clients.



Other common international standards of client protection that can lead to the prevention of over-indebtedness are highlighted in the graph above, where mostly for all indicators 100% of respondents answered positively.

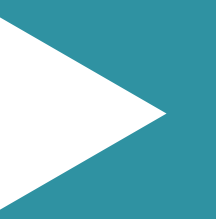
There is a Credit Registry Office in the Central Bank, which is holding all the information about the credit history of borrowers. The reporting to Central Bank is obligatory. All borrowers are checked in the Credit Registry Office aiming to prevent the over-indebtedness. The information from the bureau is available for all lenders and can be obtained in case there is a written consent provided by the borrower. Thus, in many organizations borrowers are asked to give their written consent on checking their credit histories during the application stage. Credit Bureau has been developing from IBRD and the bank association as a project. The project is still in its initial phase.

## PROTECTING AND MANAGING STAFF

Our members protect and support staff

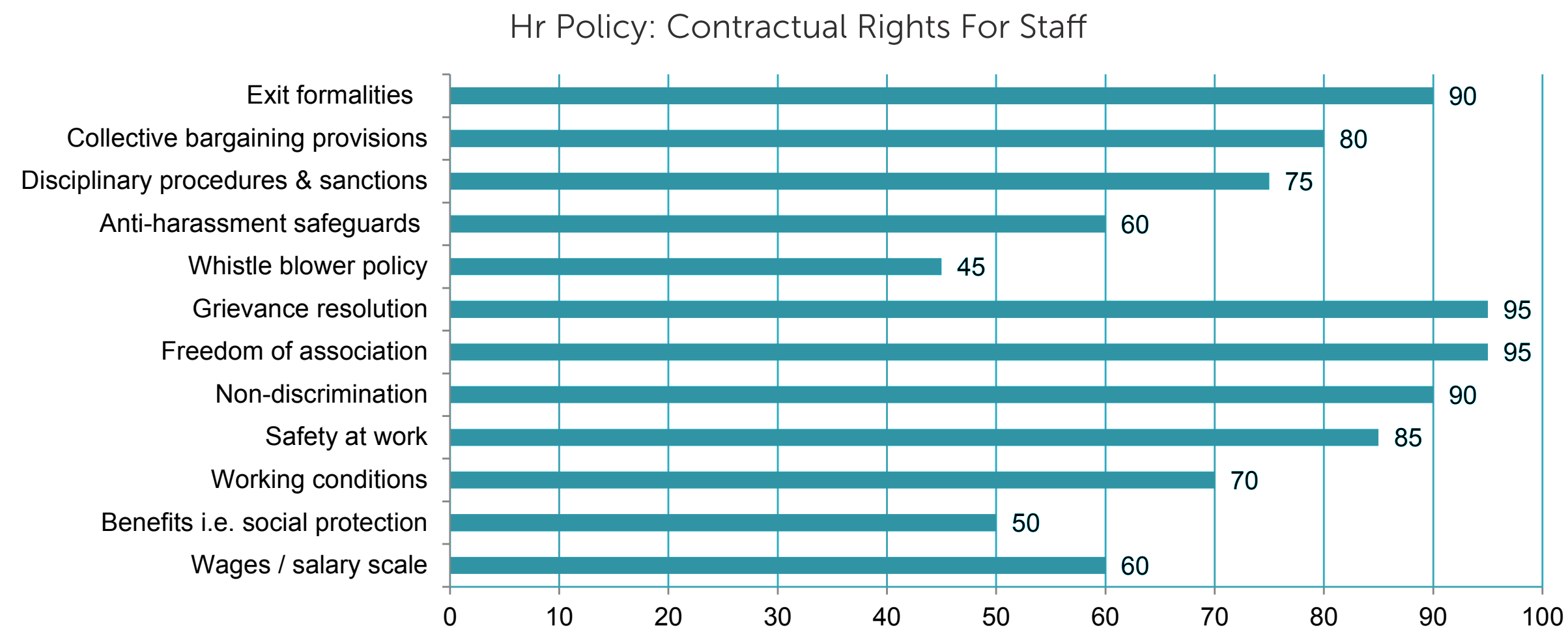
Social performance factors considered for employee appraisals

Our members are tackling the gender divide



## OUR MEMBERS PROTECT AND SUPPORT STAFF

Most of the organizations have clearly defined HR policies. This is partially driven by strong national labor legislation and regulations, which require all organizations to have certain HR policies in place that should comply with the law. Such policies and procedures regulate the rights and working relations with the staff and provide certain safeguards and rights to everyone who enters into employment relationship with local employers. 80% of employees have been employed by organizations for at least 1 year, and exits during past 12 months comprised 15% of total number of employees. According to the detailed information provided by 6 organizations about their HR policies, most of the below-mentioned contractual rights are clearly defined in the policies used by credit organizations.



## OUR MEMBERS ARE TACKLING THE GENDER DIVIDE

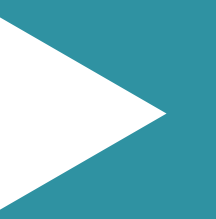
The gender balance among different levels of staff highly differs. In microfinance sector the gender balance of staff members on management levels is relatively well-balanced in general. This can partially be attributed to the fact that the percentage of high-qualified women is almost equal to those of men in the country (21% of women and 31% of men have higher professional degree). This is also clearly shown in the graph below, where it is obvious that the number of men and women employed in management role is almost equal; whilst for the field staff men surpass women by 40%. The challenge still remains when it comes to the board composition, with only 33% women, which may reflect the fact that historically men are more probable to be given decision-making role in the society.

## SOCIAL PERFORMANCE FACTORS CONSIDERED FOR EMPLOYEE APPRAISALS



# RESPONSIBILITY TO THE COMMUNITY

Our members care about their impact on the community



## OUR MEMBERS CARE ABOUT THEIR IMPACT ON THE COMMUNITY

Though all organizations reported that they are involved in some kind of support to communities, and only one of them have actually measured the impact that such projects are having on the community and on the organizations themselves. Some of the projects mentioned by respondents were subsidizing university fees for their clients' and employee's children, supporting schoolchildren and disabled children from needy communities, renovation of kindergarten etc. When responding to this question, several organizations emphasized that they hire employees from needy families as well as youth with no previous work experience. This is an interesting revelation, as it highlights one of the major issues related to unemployment, when young graduates in the country are having problems with entering the job market.

When responding to this question support to excluded population was mainly given to disable people, migrants/refugees, unemployment and elderly people. Only 1 organization measured the impact and 2631 clients were assisted. The following graph presents groups of populations that have been supported to get out of exclusion by the only organization measured.

