

The Financial Performance of MFIs in Albania

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Abstract

This documents aims to study the progress of the development of two operational structures, it MFIs and SMEs in our country. In this context, this research analyzed the progress and development financial institutions (MFIs) and their impact on the promotion and development of SMEs in Albania. Through performance evaluation of leading MFIs operating in our country, it is examining the potential opportunity and the role they play in increasing the profitability of SME's. The financial industry is considered more important seeing that they contribute to the economic development of the country. As MFIs seek self ongoing funding would successfully realize their business, they should be very careful in the administration of resources through evaluation of financial activity indicators. Analysis of the financial statements of MFIs regulated by special laws and supervised by the Bank of Albania. Analysis of financial and economic indicators of an MFI done through an analysis known as CAMEL reports. CAMEL reports are used as a more efficient decision-making tool for assessing the performance of financial institutions to anticipate the future and their risk. To realize the full information required CAMEL evaluation of data from financial statements, information on operational activity, etc. macroeconomic information. MFIs develop internal and accounting procedures and internal control mechanisms to identify, record and monitor all potential exposure to them. Bank of Albania, in case of failure to meet its obligations and requirements apply supervisory measures, preventive and punitive provided by law. Seen under this perspective, we must qualify for MFIs that have taken in the study are faced restrictions on their financial statements. So with the data available we will try to estimate the financial reports for each IMF review (FED Invest SCA, BESA Found, NOA, Vision Fund Albania, and FAF) and the total system of MFIs in Albania. These results are generated through an empirical analysis of MFIs in Albania and broke the are-consistent with the theory.

1. Introduction

Experience has shown that microfinance has been a powerful tool for the development of small and medium enterprises (SMEs) to Albanian agribusiness, playing an increasingly crucial role in improving the level of living conditions and welfare of the population especially in areas rural, in the creation of new jobs, contributing to economic development of the country.

The growth and development of SMEs plays a crucial role in the national economy serving as a driving force in the economic development of the country.

Despite the great contribution to the growth and economic development of the country, the growth and development of SMEs in our country is hampered by financial access, poor management skills, lack of training opportunities and high input costs. The rise in liquidity and low access to finance for SMEs is the biggest obstacle to them. SMEs have limited access to financial services provided by formal financial institutions to meet their liquidity and investment needs.

"The availability of credit to small business and low-income households can increase the power of tire economics and eventually break the vicious circle of" low income - low savings - low investment - low income" (Yunus, 1984). The banking system does not show interest in financing SMEs since the amounts requested by the donkey are too small and negligible by the second tier banks Commercial banks are considered the catalysts of the country's economic development by mobilizing and securing Profitability from the large amount of credit they provide, and in that view they consider it risky and not-for-profit financing in rural households and businesses, excluding them from the mortgage lending portfolio for lending.

IMFs are a cheaper way of finance finance for SMEs. The role and impact of the IMF in fostering the creation, growth and development of SMEs are closely linked to two important aspects of IMF activity, namely me:

1. Increasing the level of performance and efficiency of using financial funds in lending and increasing the financial sustainability of the IMF.
2. Improve the IMF's impact on the social field to help the poorer sections of the population by reducing to a significant degree of poverty.

Sustainability and financial stability is linked to the ability to provide a long-term program under the activity aspect as well as to providing services in full compliance with its objectives, scope and mission. For an optimal functioning of an IMF, financial stability is related to the ability to be consistent in the activity and activity of the liquidator as a financial institution developed to provide services in a well-defined segment of clients such as the poor and individuals who live in rural and peri-urban areas.

The creation of the microfinance sector and its functioning in Albania has played an essential role and has been and is a powerful tool for the development of small and medium enterprises (SMEs) of Albanian agribusiness. Microfinance has played an ever more decisive role in increasing output, reducing unemployment, improving the level of living conditions and welfare of the population, especially in rural areas, creating new jobs, contributing significantly to economic development of the country. The growth and development of SMEs plays a fundamental role in the national economy, serving as a driving force in the country's economic development. Empirical evidence suggests that the growing SME sector and the dynamism of their development can strongly contribute to achieving a broad range of development objectives, such as: Achieving income distribution and poverty reduction; Creating employment; Savings mobilization; And production of goods and services that meet basic needs of the individual and society.

Despite the great contribution to the growth and economic development of the country, the growth and development of SMEs in our country has been hampered by financial access, poor management skills, and lack of training opportunities and high input costs. Liquidities' sluggishness and low access to finance for SMEs is the biggest obstacle to them. SMEs have limited access to financial services provided by formal financial institutions to meet their liquidity and investment needs.

2. Analysis of the financial performance indicators of MFIs

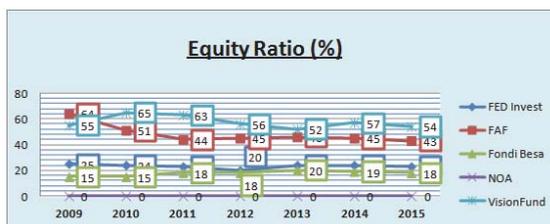
Capital adequacy is an indicator that assesses whether the MFI is able to maintain its solvency at risk that it encounters during its financial activity. While capital is important because it provides MFIs against losses from loans or exposures to other risks.

The entity, in this case, the IMF provides sufficient capital levels to conduct a safe and stable activity, and to fulfill its obligations. MFI respects the capital adequacy, where in the percentage of capital to asset balance sheet items and off risk-weighted balance should not be less than 10% during the first two years exercise and activity at any time not less than 12%.

One of the indicators of capital adequacy is simplified capital ratio, which is calculated:

$$\text{(\% Simplified equity ratio)} = \frac{\text{Shareholders' equity}}{\text{total assets}}$$

Simplified report capital to MFIs under consideration shown by Table 1:



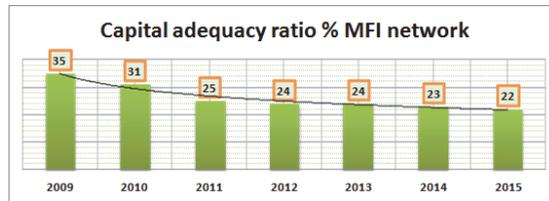
Source: Author's calculations based on Annual Reports MFI

In our case, excluding NOA (for which no data are available) to 2009, FAF has a satisfactory level of this ratio with 64%, followed by Vision Fund with 55%, then classified Fed Invest (former Union KCS) by 25% and 15% Besa Fund. It Besa Fund has a level of capital limits required by the Bank of Albania. Meanwhile, in the second year again fondiBESA appear close to the floor level of capital adequacy, which means relatively low level of share capital and assets. This phenomenon is eligible for MFIs in the early years of their activity, as is the case with Besa Fund.

Meanwhile, for the following years (2010) seen a downward trend in this indicator as a percentage. Thus an increasing share capital and Fed Invest assets, which increased the percentage gets translated into a decrease of 1% compared to the previous year (24%). Meanwhile, the FAF recorded an increase in value in parallel to the two indicators, which translates into a rate of 51%, scoring less than a year ago. But fondiBESA increase of both assets and capital has

been constant n'a to produce the same amount of 15%. Change this year marks the Vision Fund which has had an increase of 10% to 65% total.

As seen from this report satisfactorily presented other indicators in the following years and within the parameters required by the Bank of Albania, showing that MFIs have security against loan losses and other risks. 2011 Vision Fund is a higher ratio of 63%, which is followed by FAF by 44%, the Fed Invest 23% and 18% Besa Fund.



Source: Author's calculations based on Annual Reports MFI

Asset quality indicators carry out a risk assessment, control, adequacy of reserves for loan losses and profits. The quality of assets depends on their ability to be converted into money. This indicator determines how well or not is active performance of MFIs. Equally, it is important to determine the liquidity of the assets and the maturity structure of different voices. Choice of investment by the IMF determines how she earns income, the level of performance of the MFI's assets. To better understand the quality of the assets used several reports:

A. The ratio of interest bearing assets includes the weight of the profitable assets of the MFI, which are represented by interest-bearing instruments, real estate or loans to the MFI's clients, securities, investments in the money markets, deposits limit imposed on banking institutions etc.

Weight bearing assets = profit Assets / Total Assets

Simplified report capital to MFIs under consideration shown by the table below:

Asset quality	2009	2010	2011	2012	2013	2014	2015
FED Invest	26	34	37	50	46	48	45
Vision Fund Albania	99	13	9	12	20	6	10
FAF	102	96	95	82	89	87	83
Besa Found	1	10	3	2	3	12	9
NOA	98	99	0	99	98	99	95

Source: Author's calculations based on Annual Reports MFI

As high as this report is the most profitable MFI. This table shows that the MFIs in the study have a relatively satisfactory performance, which leads to the FAF indication of high levels of this report, which is followed by VisionFund Albania. Meanwhile, it turns out that NOA third by results, and its Fed Invest after the indicator upward trend over the years. Even in the calculation of this indicator Besa Fund presented with relatively poor results, where this indicator very low levels, a result that determines the level of interest bearing assets.

The ratio of nonperforming loans represents how much of the total gross loans represent loans overdue more than 90 days. For this report does not result in complete data referred to annual reports MFI, but only data for the years 2012, 2013 and 2014 and consolidated data from the AMA (Albanian Microfinance Association). Regardless, they found partial data associated with non-performing loans of some MFIs.

Performing loans / total loans portfolio

The ratio of nonperforming loans by year	2009	2010	2011	2012	2013	2014	2015
FED Invest	1.25	2.39	-	1.33	3.23	-	3.48
NOA	-	-	-	-	-	-	-
FAF	2.9	1.37	1.54	1.97	-	1.75	1.79
Besa Found	-	-	-	-	-	-	-
Vision Fund	-	-	-	-	-	-	-

Source: Author's calculations based on Annual Reports MFI

The smaller the value of the ratio of loans to the more qualitative issues and healthy loan portfolio is an MFI. As has been shown in the table, this indicator is calculated only for two IMF, the Fed Invest and FAF due to lack of significant data. These indicators have relatively low value, which means a low risk and controllable by the MFI. Depending on the value of risk that have credit problems and reports of overdue loans, their tendency over the years the IMF 's leaders develop strategies for the full recovery of loans.

The NPL ratio of MFI systems	2012	2013	2014	2015
Nonperforming loan	72,789,364	63,391,000	23,248,942	25,926,562
Total SCA portfolio	10,192,060,398	8,837,755,958	6,943,110,341	6,190,162,962
Report %	0.71	0.72	0.33	0.42

Source: Author's calculations based on Annual Reports MFI

Return on shareholder equity (ROE) compares net profit MFI with equity for a specified period of time. This indicator is calculated through the report:

$$ROE = \text{Net Income} / \text{Shareholders' Equity}$$

Based on the data of the financial statements it shows that this ratio is very low figures, as the return on capital depends on the level of capitalization of financial institutions. ROE measures how the MFI's ability to raise capital from internal sources and to pay dividends as well as the return of the IMF's shareholders' investments.

The table shows that the Fund Besa there is a trend growth rate at high levels, where shareholder equity and net profit record since growth rates per year. Compared with other MFIs trend of growth for both indicators of Besa Fund is best presented by other MFIs.

Meanwhile, and Vision Fund is an increasing trend for both indicators from 2009 to 2014. But the Fed Invest in recorded trend of falling equity capital from 2009 onwards, and a profit decline in years. This translates into a low- ability Fed Invest's to increase its capital. Of course, that his recovery requires a careful analysis of earnings quality that affects its growth, as well as the IMF's ability to raise capital.

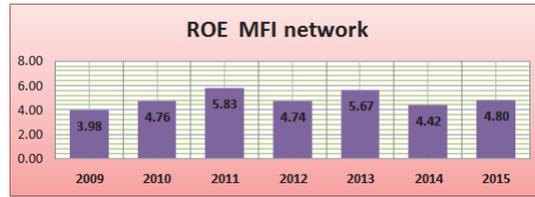
For NOA-n recorded in the years 2009-2010, an increase of the share capital, and after his landing in 2012-2014. Meanwhile, the tendency of profit taking incremental value in the first two years, after which sits n'a produce a low value of this report. For FAF estimated a growing trend as share capital and net profit.

Referring to the estimated values provided by the report of return on shareholder equity for each MFI would suggest that even for MFIs to which have increasing trend of both indicators over the years required to increase their capacity to empower growth as a shareholder as well as net capital gain. For this play an important role in strategic policies that will undertake the MFI itself to increase the share capital potential. Within the short time of the creation of MFIs composition, and their form of organization, which have their focus on microcredit vulnerable areas leaves us to understand to lower the value of their capitalization. But in the long run created space and greater potential for increasing the level of their capitalization and profitability.

ROE	2009	2010	2011	2012	2013	2014	2015
FED Invest	7.28	6.58	3.08	1.07	0.95	0.48	0.48
NOA	28.20	30.58	-	4.13	12.14	1.54	8.43
FAF	0.00	2.46	1.83	3.72	3.87	0.40	6.10
Besa Found	18.14	28.19	13.89	13.60	15.34	13.20	15.70
Vision Fund Albania	5.56	14.01	32.74	43.43	50.15	61.20	52.70

Source: Author's calculations based on Annual Reports MFI

The same situation applies to the total network of MFIs, which is seen as a growing trend of the share capital as well as net profit. Despite their growth rate, again recorded low values are estimated spaces and possibilities that offers financial market in our country. The decisive role in strengthening MFIs and increasing the level of return on equity play a visionary and strategic policies for their management. As has been shown in the table, there is increasing trend from 2009 to 2013 for both indicators, but a decline since 2013 in that 2014 net profit, reflecting a lesser value of this ratio 4,42%.



Source: Author's calculations based on Annual Reports MFI

3. Summary of Results

Microfinance institutions in Albania should be encouraged to assess their financial and social performance through continuous monitoring of known indicators in full compliance with institutional objectives.

To increase transparency in reporting MFIs, standardization and unification of accounting principles, the financial statements in order to allow the possibility of meaningful comparisons of the Albanian system for microfinance stakeholders.

At the conclusion of our analysis about microfinance in Bangladesh, we believe that the industry is moving more and more towards consolidation. Moreover these institutions practices in rural micro-lending is beginning to attract the banks themselves which until recently feared this loan form. From interviews conducted through questionnaires instead we conclude the following:

- Microfinance is a necessity for the residents of rural and suburban areas to offer them various financial services;
- Microfinance being a financial support for the expansion of small and medium-sized businesses, it has indirectly encouraged the creation of new jobs, and generating employment;
- needs for microcredit are growing and it seems clear that individuals like this form of financing;
- Microfinance promotes entrepreneurial activity to the residents of rural and suburban areas, helps in the expansion of existing small businesses and has also contributed in reducing informality and incorporating these businesses to legal registration and self-declaration.
- Microfinance has improved the welfare level for many individuals, giving them a chance to t'u away from extreme poverty.

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