

**THE EXPERIENCE OF MICROFINANCE IN ALBANIAN AGRICULTURE**

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**Abstract**

*Left totally unchanged with land reforms starting and consolidating the alleged smallholding venture of around 1 hectares with low external inputs and labor intensive technology Albanian farming is characterized as being a self-sufficient agricultural model. Over the past decade Albania opened its doors to the market economy but that process seems not to have extended and embraced the rural economy. Why? The hypothesis is that land reform effects did not endure and filter through due to typical market inelasticity, along with a strong pillar of this peasant household's equilibrium: farm structure consolidation during Albanian transition is a peculiar part-time smallholding venture which could be labelled “translational part-time farm”. This subject doesn't demand credits to purchase land orienting itself toward the market. It demands credit to strengthen its own self-consumption-oriented structure. So the aim of this paper is to consider why the analyzed micro-credit system would contain elements of sustainable development dynamics in Albanian rural environment.*

Keywords: self-sufficient agriculture, access to credit, part-time farming, sustainable development

**1. INTRODUCTION**

In Albania even today agricultural farm structure is almost that of agrarian reform in the early transition period, an agrarian reform that led to the division of land, until that moment dominated by state-run cooperatives, and its distribution in micro-farms on the basis of principle of equality, (Ellis, 1992, [5]). In order to summarize these developments what is easily noticeable is that even though some 2 decades have already passed by since the transition, the regime of private ownership of land resulting from the reforms has not yet evolved towards a market-oriented structure.

Rather it is characterized as an agricultural model defined as self-sufficient and oriented towards self-sustenance, with farms with an average area of about 1 ha, labor-using and low use of external inputs, (Tripp, 2006, [11]).

Albanian Agricultural Farm theoretically can be classified as a case of peasant farm household, (Ellis, 2003, [6]).

By way of this introduction, this paper constitutes to be a key reading on the Albanian rural development serving the evolution and performance of the key system of rural micro-credit in Albania: Albanian Savings and Credit Union (Union SCAs). Considering the entrenched and constant effects of agrarian reform arising from the rigid restricting of land market, (Ellis, 1992, [5]), the set of data related to SCAs Unions point towards the presence in Albania of a process of virtuoso consolidation in agricultural structure driven and steered by self-sustenance in a long-term perspective.

Peasant Household farm for almost ten years is efficiently benefiting from the possibility of a non-subsidized credit provided by the Union of SCAs with the aim of optimizing surplus production after self-sustenance to move towards the local food market through investment capable of boosting productivity and the micro-unit production run rather than in expanding the size of farm and the progressive specialization of agricultural farm serving the market function.

In fact only about 1% of credits is used to purchase land and about 8% of it for rent. Micro-Albanian agricultural farm does not require loans to buy land and to be oriented towards the market. Rather it seeks loans to strengthen its structure based on production for self-consumption.

Demand for credit has led to increased productivity of land already owned and maximizing that part of production which by exceeding the amount necessary to guarantee an adequate level of consumption and savings in the farming household, represents a shadow price on self-consumption less than the market prices and thereby available and price-fetching for sale, (de Janvry, et al, 2002, [4]). But the consolidation of the Albanian agricultural farm bases itself on another column except that of the possibility of loans: remittances from abroad. For this you can have an agricultural farm, part-time and specific defined a transnational part-time farm. Table 1 shows the structure of incomes, (Skreli, et al, 1997, [10]).

**Table 1. Rural households income**

Income	Sources of provision		Income destination (in billion of Leks)					
	Farm ing activities	Out farming activities	Consumption	Savings	Tot al %	in %	Invest ment	Idl e
119	80	39	83	70	36	30	19	11

Source: Skreli, E., Meçe, M., Musabelliu, B., Apostoli, S., 1997, ([10])

The presence of an internal process of wealth creation through a non-subsidized credit and in the absence of supporting policies in agricultural incomes describes an anomaly case in agriculture. This case alone can be explained on the basis of the opposite link between productivity and farm size which is an empirical clarity rolling and repeating itself in agriculture, (Ellis, 2003, [6]). Thus, the Albanian agricultural farms would precisely find in its small size not only a natural guide to self-sustenance but also a natural economic and financial efficiency.

The importance of this paper lies in the attempt of getting an answer to the opening of credit channel of strong points of the post-transition Albanian agricultural structure. Micro-credit applied in agriculture rarely achieves satisfactory results, (Skreli, et al, 1997, [10]). Despite this in 2008 the Albanian Union of SCA has ranked 19 in the rating of the micro-finance institutions worldwide, [8], among the first five if you consider only rural micro-credit systems, (Pillarissetti, 2007, [9]).

## 2. MATERIAL AND METHOD

This paper proposes a research of the exploratory type in the Albanian experience on the topic of rural micro-credit, a research which started in 2006 and is still ongoing, under the Scientific Cooperation Agreement between the Italian and Albanian Government. For purposes of analysis the time lines are elaborated upon based on FAO data regarding the Albanian agricultural mix in the transition period, full interviews were conducted with key persons of Union's board of SCA, sample of some 15 SCAs is prepared and administered, a questionnaire containing approximately 100 variables of the quantitative-qualitative type which are related to the operation and performance of the SCA. The hypothesis formulated and the ensuing thesis are not subject to any statistical verification based on exploratory nature, not positive, of

research. Empirical checks will be part of a more advanced stage of elaboration on the basis of the data collected.

## 3. RESULTS AND DISCUSSIONS

The Union of Savings and Credit is a micro-credit based system upon the model of Grameen Bank which today in Albania represents the main source of crediting, non-subsidized, in agriculture. SCAs were legally recognized as such on 3 May 2001 after a decade's development, (Annual Reports, 2004, 2006,2008, [1]). In 2001, the SCA were present in 175 villages, while in 2008 present in some in 805 villages scattered across 14 districts out of 36 in total existing in the country, with an average annual rate of territory coverage of 32.6% for the period 2004-2008. Always with this period 2004-2008 in mind the number of SCAs jumped from 90 to 103. The average number of members for each of the SCA jumped from 118 individuals in 2004 to 240 in 2008 with an annual average rate of expansion of size companies equal to 27.5%.

Briefly stated the expansion of the system is verified more through the increase of "pioneer" SCAs than on the basis of the creation of new groups. The expansion of existing companies and the high number of members of any society, should be considered valid indicators of the presence in the territory of two main elements pointing to the success of a micro-credit: program reliability and personal name as a form of guarantee and steering capabilities that in its turn hints at the presence of a good level of social capital.

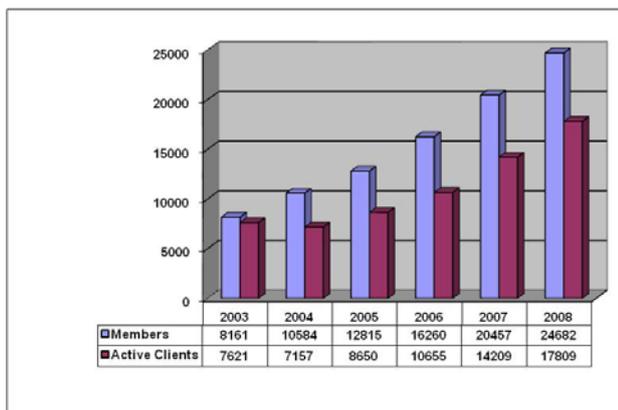
It should be borne in mind that the number of members of the Union of SCAs in 2008 standing at about 25 thousand represents approximately 5% of agricultural farms present in Albania.

From this evidence its should be pointed out that that this percentage can not allow for generalizations of the behavior and of the economic and financial possibilities of the national agricultural sector. But it is true that it is not possible to set out credible reasons to say that the process of rapid expansion of the Union of SCAs is likely to stop anytime soon. In less than ten years SCAs have spread in many districts, even in those out on the periphery. So, it can not be excluded that the trend of the SCA Union may be the result of a progressive involvement of all national rural territory in the process of consolidating the financial and economic optimization of agricultural structure oriented towards self-sustenance.

During the period 2004-08 the average annual percentage of growth of members for all its SCA network has been at 22.9% while the ratio between active clients and members has remained almost unchanged at around 67% for the period 2004-2006.

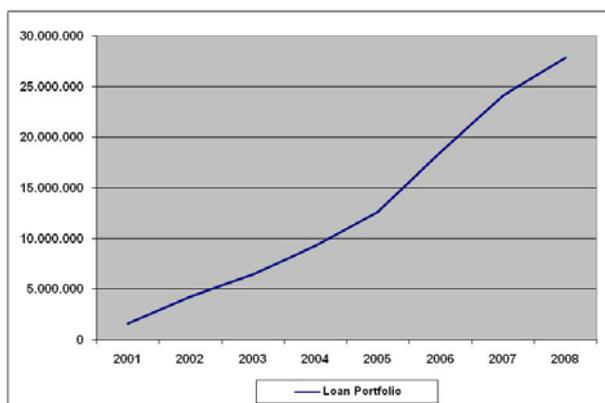
This shows that despite the broad participation of rural society in establishing a credit cooperating system, some difficulties are present such as the lack of profitable markets and insufficiency of financial capital - that prevent the system from developing its maximum potential in terms of the relation between effective customers and members. But, it easily noted that during the period 2007-2008 the ratio between active clients and members has increased by 72% (Figure 1).

This last set of data may indicate that the ability of Union funding (active members) in relation to the most (number of members) is starting to expand.



**Figure 1. The evolution of SCA Network**  
Source: elaboration on Albanian Saving & Credit Union data Reports, ([1]).

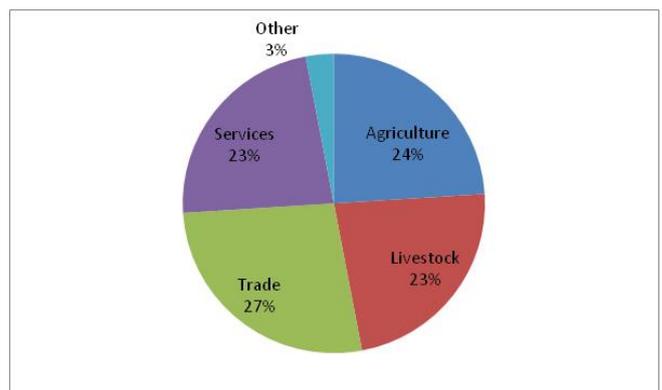
Evolution of the Union card lending performance shows a positive linear development marking an average annual growth of 32% during the period 2004-2008 (Figure 2).



**Figure 2. The evolution of SCA Network portfolio (€)**  
Source: Albanian Saving&Credit Union Reports 2008, ([1]).

Always with the period 2004-2006 in mind the average loans in Leks were equivalent to about 1500 Euro, a value close to the Albanian incomes per capita. Portfolio at risk has decreased steadily going down from 2% to 0.5% for the period 2001-2006. In practice the introduction of late payment of credit is close to zero.

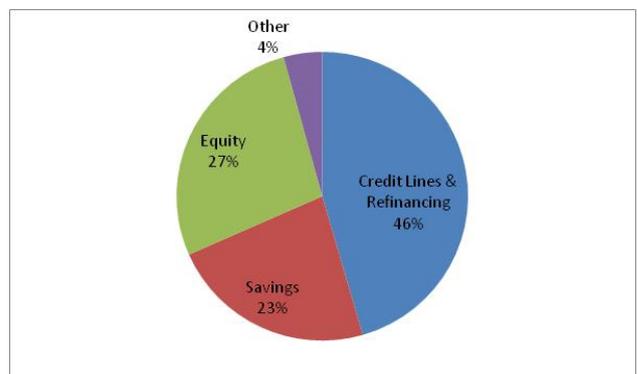
Most of the loans within SCAs activity go towards vegetable, livestock and fruit-trees, but credits as such extend to other commercialization activities and services related to agriculture; the result is an overall economic growth in rural area (Figure 3).



**Figure 3. Utilization of loans. SCAs Union**  
Source: Albanian Saving&Credit Union Reports 2008, ([1]).

Finally, Figure 4 shows the perfect balance between its loan capital and the credit capital from abroad collected by the Union of SCAs in the financial markets.

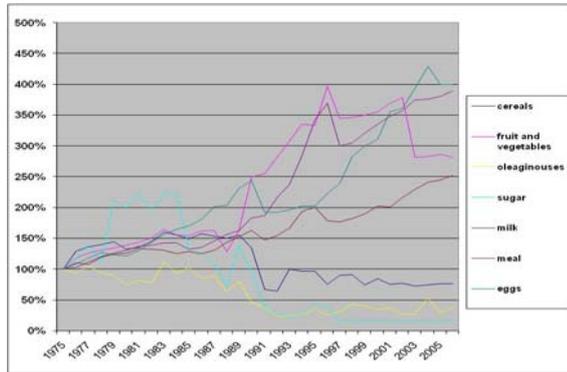
The conventional financial sector believes and invests in the SCA system almost by doubling the loans cartel and this certainly is an indication of performance and sustainability of the financial system under analysis.



**Figure 4. Structure of Funds. SCAs Union**  
Source: Albanian Saving&Credit Union Reports 2008, ([1]).

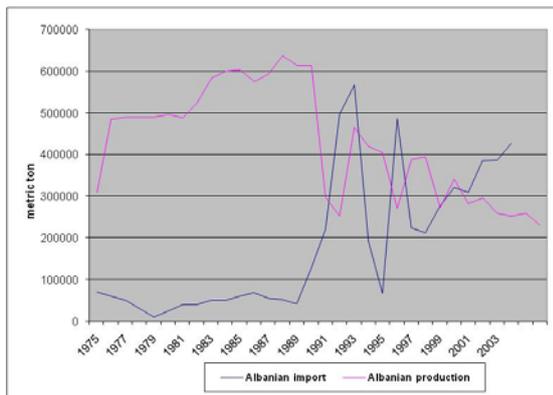
The structural evolution of the Albanian agriculture in its orientation towards toward self-consumption finds an answer in the evolution of the agricultural

mix represented as a time series and indexed in the base year  $t_0 = 1975$  in Figure 5.



**Figure 5. Agricultural-mix change in transition period**  
Source: elaboration on FAOSTAT data

In a parallel manner in Figure 6 one can notice who at the point of transition the national production of wheat is cut in half and then alter in a progressive manner is replaced by imported wheat, in its biggest part destined for consumption by urban population already currently isolated from national agricultural offer.



**Figure 6. Wheat production and import change in transition**  
Source: elaboration on FAOSTAT data, [7].

Relocation of production from cultivation of cereals towards livestock can be explained by considering that the latter provides a greater food availability in the short cycles in small area within an economy oriented towards production intended for self-consumption, a confirmation further to the hypothesis of this paper.

In the dynamics of farm production cycles the farms also find an efficient way of reducing environmental risks toward which the extensive cultures are dependent upon. In addition, the livestock alongside fruit and vegetable growing, exploits fully well the annual extensive labor-intensive culture which is typical of the Albanian agriculture, ([www.themix.org](http://www.themix.org)).

This recent survey confirms numerous empirical verifications of the opposite link between productivity and size of farm, (Berry and Cline, 1979, [3]). In conclusion, taking the opposite link between farm size and productivity, peasant farm are to join an optimal solution system starting from the distribution of production source less insufficient production in the farm, in this case labor.

#### 4. CONCLUSIONS

The perspective of rural development in Albania in relation to the evolution of small holding ownership of families set upon self-sustenance which advances within an efficient cooperative credit system. This system is represented today by the Union of SCA, (Belletti, 2009, [2]). Given the truth of the opposite link between productivity and size of agricultural farm, the synergy between agriculture and credit could deliver a significant production capacity to direct it towards the market. This projection enters into the national macroeconomic framework in view of risks associated with globalization. In this context it is important that the Albanian agricultural sector lifts itself out of its state of isolation by integrating itself into the national development, which today is dangerously imbalanced by the industry connected with the international markets. Until an external development dependent on foreign capital and foreign consumer markets transforms into a sustainable and long internal development, it should be said that the contribution of the agricultural sector will be an important element less in the function of GDP contribution than in specific functioning of the in macroeconomic stabilization that is independent of the contribution to GDP.

Given the recent changes in policy, economy and market implementation in Albania today what looks and is like a weakness, that is the small size of self-sufficient farms, might result as a point of force of a society more equal with a more stable economy.

Reliance on a national agricultural structure based on small private property, self-sufficient and able to support a good part of national consumption demand in an open a market economy means re-investments should occur within the country, particularly in rural areas which currently turn out to be excluded from development, a significant part of income generated by industrial investment income from abroad. Representing a broad

expansion and penetration of the SCA system in the rural environment it is possible to imagine Albanian self-sufficient agricultural model as a model of sustainable rural development, capable of providing stability to the national macroeconomic balance.

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