

## **THE MICROCREDIT IMPACT ON SAVING DEPOSITS**

### **A CASE OF ALBANIA**

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#### **Abstract**

*The impact of microfinance schemes can be seen from three diverse but interrelated aspects: namely economic, sociopolitical/cultural and personal/psychological. In many developing countries, lack of capital and savings make it difficult for most poor people to start their own business. It is generally accepted that microfinance has an important role in income generation, enabling the poor people to just start having saving deposits, and as a forward impact planning for their prosperous future. This paper studies the impact of microfinance on the livelihood approach of poverty through the improvement in saving deposits of beneficiaries in a small developing economy like Albania. For the purpose of this paper it has been used a comparison based survey applied on a sample combined by a treatment group and a control group. The overall analysis shows that microfinance activities have improved the living standard of the people in economic terms, considering the saving deposits as an important impact tool.*

*Keywords: Microfinance, Microcredit, Impact Assessment, Saving Deposits, Poverty, Developing Economies*

#### **INTRODUCTION**

For three decades, microfinance institutions have given out small loans to the world's poor—mostly women—and amassed hundreds if not thousands of case studies showing that the loans help alleviate poverty, improve health, increase education and promote women's empowerment.

Skeptics, however, have argued there is not enough hard data to prove that microfinance transforms lives on a large scale, and they have called for more rigorous analysis ([www.forbes.com](http://www.forbes.com), 2015).

Microfinance is considered one of the most effective and flexible strategies in the fight against global poverty. It provides basic financial services such as loans, savings, money transfer services, and micro insurance to clients that have been previously ignored by more traditional financial services providers.

Microfinance started with Nobel Peace Prize Laureate Mohammed Yunus, who began with a simple but revolutionary concept: Loan poor people money on terms that are suitable to them and teach them sound financial principles so they can achieve financial self-sufficiency ([www.grameen.com](http://www.grameen.com), 2015).

Following the achievement in Bangladesh by the Grameen Bank, the importance of microfinance for reducing poverty has gained momentum in the policy agenda of numerous countries. Many governments and international organisations have been using microfinance as an effective instrument for poverty alleviation.

With globalisation and the rapid development of many countries, there has been an alarming increase in poverty. Three billion of the world's population, being poor, lives in dismay and pitiable conditions while the rich enjoy the benefits of globalisation.

The role of microcredit for poor entrepreneurs, in particular for women, for alleviating poverty was emphasized in many research papers by many scientific institutions. Most of them are always calling for increasing the number of households having access to microcredit from less than ten million of households in 1997 to about 100 million households by 2005, to about 91 million clients in 2014.

Since its beginning, about 30 years ago, microfinance has had very productive years exemplified by a strong growth, by the positive impression it has had on development professionals and on public opinion in general, and finally by the attribution in 2006 of the Nobel Peace Prize to Muhammad Yunus, the founder of microcredit (Yunus, 2008).

There are more than 10,000 microfinance institutions (MFIs) globally. They comprise a wide range of institutions, from credit unions and cooperatives to non-government organizations (NGOs), government agencies, private companies and commercial banks ([www.responsAbility.com](http://www.responsAbility.com), 2014).

There are between 150 and 200 million microfinance borrowers globally (Abhijit, Banerjee, and Esther, 2011), and market outreach has expanded by 25-30% annually over the last decade. While nearly 8% of the world's poor now utilize microfinance, the fact remains that 92% of the global poor still lack access to financial services.

Today, a number of MFIs are jointly offering financial and non-financial services to improve long-term sustainability and to support a double bottom line mission, which emphasizes the importance of both a financial and a social return.

Thus, the main objective of this study is to assess the livelihood approach of poverty among the beneficiaries of MFIs in Albania by focusing on their living standard. Thus, we use the impact on saving deposits to capture the livelihood approach of poverty in Albania and analysing its impact at household level.

## LITERATURE REVIEW

Microfinance is an extension of micro-credit. The former is broader in perspective as it also includes transactional services, insurance and savings while the latter lends small amounts of money to the poor. However, Microfinance has different meanings to different people.

Roth and Athreye (2005), defines microfinance as the provision of financial products (including financial services such as credit, savings and insurance products) that target low-income groups, whilst Otero & Rhyne (1994) classifies microfinance as the supply of financial services to very poor self-employed person.

The impact of microfinance schemes can be seen from three diverse but interrelated aspects: namely economic, sociopolitical/cultural and personal/psychological. This was illustrated by Rosenzweig and Wolpin (1993), who revealed that, in India, bullocks were being used as assets to generate income at a later stage and also to smooth consumption.

In addition, lack of access to financial services could lead to adoption of very ineffective types and unfavourable savings methods which have major impacts on and in the perpetuation of poverty. Therefore, microfinance can help to set up or expand family projects, potentially making the distinction between grinding poverty and economically protected life.

Many households borrow, more do save, and all insure. Poor, food-insecure households in developing countries seek to avoid the risk of falling below a minimum level of consumption of food and other basic goods that would threaten their livelihood or even survival.

A number of studies have been carried out on the impact of microfinance in Albania. Kola (2010) is focused on the microcredit contribution on social wellbeing in Albania. In this research, he brings facts/figures concerning to some issues: being client of microcredit companies bring positive changes in the living standards of microcredit program participants and broadly in their communities; being Microfinance Institutions client is associated with greater acquisition of land relative to non-clients, which can be taken as significant evidence of positive impact; he has find there is strong evidence of positive impact on the multiple dimensions of household income and enterprise performance.

The demands of end-clients drive the growth of MFI portfolios, creating a need for refinancing. The annual growth potential of microfinance loan portfolios is estimated at 21% globally. In local markets, the degree of saturation, as well as structural factors such as demography, lead to higher or lower potential growth rates. Cyclical factors such as the macroeconomic environment and political developments shape the actual level of growth. The close monitoring of cyclical factors is a prerequisite for investing in microfinance (Microfinance Market Outlook 2014).

According to many authors microcredit has an impact on saving deposits, and this increase in savings has a positive impact on the financial situation of the family.

## **METHODOLOGY**

For the purpose of this paper we have used a comparison based survey applied on a sample combined by a treatment group and a control group. The survey focused on collecting a categorical type of data which will reflect direction of change as opposed to measuring the exact amount of change. However, when interval level data was reasonably available, it was collected (Ceku, Kola, 2011).

In total, 156 random clients were met and interviewed using in-depth semi-structured interviews. Clients were selected from some main MFIs branches covering almost all the territory of Albania.

This research was conducted with new clients, ex-clients, but mostly mature clients or those clients who have been in the programme for at least 24 months or longer and have obtained one or two loans from any MFI in Albania.

The reason behind the sample selection is that one needs to allow for sufficient time for the programme to have an effect on the clients' lives. It is generally accepted in microfinance that a minimum of 20-24 months of programme participation is necessary to test for any impact.

### **Sample Designing**

Broadly speaking, the sample was composed of the treatment group and the control group. The target population for the treatment group was "two-year clients", and included both current and ex-clients. The distribution of current to ex-clients in the treatment group was roughly proportional to the percentage of clients who dropped out of the program over the relevant time period. The control group consisted of pipeline clients, or new program clients, who either have not received their first loan or have received their first loan but have yet finished their first loan cycle.

Following best practice for conducting surveys, the selection of the survey sample was done by first geographically clustering the clients. It is revealed that geographical differentiation

(rural, urban and peri-urban) was the most appropriate form of clustering for this survey. The final sampled numbers closely approximated the proportions of clients in terms of gender and percentage of borrowers.

## **FINANCIAL IMPACT OF MICROCREDIT**

Most people who live in poverty actually have extremely sophisticated financial lives, in part because their incomes fluctuate wildly from one day to the next, says Morduch, the New York University professor, in his new book, *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*.

Having access not only to credit but also to savings, insurance and remittances would bring benefits to the poor by helping them stabilize their lives, according to Morduch. A secure savings account or an insurance policy might not lift a person out of poverty, for example, but it might alleviate an enormous amount of stress and help him or her avoid financial catastrophe (www.forbes.com, 2015).

The evidence shows that the MFIs products (loans) are successfully reaching “poor” people. Of the new potential clients planning to enter the program 65.85% are “poor” according to international poverty standards (converted to the purchasing power parity (PPP) through this tool). Thus, MFIs appears to have achieved significant depth of outreach in terms of providing needy people with financial services (loans).

### **Savings**

Based on the sample data, we can conclude that the treatment and control groups differ in terms of amount saved over the last 12 months. Respondents reported that the amount they had been able to save over the last 12 months “increased greatly” was (32.50%) for the treatment group compared to (2.78%) for the control group, and (59.17%) of the treatment group reported that the amount saved had “increased” compared to (5.56%) of the control group, as shown in the Table 1 for every category.

As a result we can conclude that being a microcredit client can be able to save more money, and as a matter of fact can change their way from using income to spend for everyday expenses and emergencies to planning to invest in the future.

Table 1: Change in Amount Saved over Last 12 Months  
(Treatment vs. Control Group)

	Total %	Mature Clients %	Ex-Clients %	Treat. Group %	Control Group %
Decreased greatly	3 1.92	0 0.00	0 0.00	0 0.00	3 8.33
Decreased	9 5.77	0 0.00	0 0.00	0 0.00	9 25.00
Stayed the same	31 19.87	8 8.89	2 6.67	10 8.33	21 58.33
Increased	73 46.79	59 65.56	12 40.00	71 59.17	2 5.56
Increased greatly	40 25.64	23 25.56	16 53.33	39 32.50	1 2.78

There are statistically significant differences in the types of savings mechanisms used by members of the treatment and control groups. They use other MFI for savings as (9.32% and 5.26%) as for treatment group compared to control group, as shown in Table 2.

Table 2: Savings mechanisms used by MFI clients  
(Treatment vs. Control Group)

Types of Savings	Total %	Mature Clients %	Ex-Clients %	Treat. Group %	Control Group %
Other MFIs	13 8.33	9 9.78	2 7.69	11 9.32	2 5.26
Commercial Banks	54 34.62	32 34.78	17 65.38	49 41.53	5 13.16
None	60 38.46	32 34.78	3 11.54	35 29.66	25 65.79
Other	29 18.59	19 20.65	4 15.38	23 19.49	6 15.79

The large positive impact of participating in microfinance programmes on household income and savings suggest that microfinance programmes may improve household status in terms of wealth.

The regressive effect on household per capita income suggests that poorer households do not feel as much the effects of the intervention compared to richer households. The policy implication of this regressive effect might be that for the poorest programme participants, the availability of programme loans and savings schemes may be not sufficient to become highly productive in income-generating activities.

The finding of participation in microfinance programmes not being highly effective in terms of savings for richer households highlights the importance of a robust and accurate targeting mechanism for the microfinance programme in Albania. Against the backdrop of these

findings, policy planners and microfinance practitioners could re-examine the targeting approach of microfinance in our country. Finally, the principal message that emerges from the study is: there are quantitatively non-negligible, average gains from microfinance on household savings and income, especially for the poor.

Although the proportion of responses between the treatment and control groups differ regarding why respondents save, the responses demonstrate that the treatment group uses savings for “future investments in business” (33.77% vs. 18.97%), “future purchase of basic goods” (16.23% vs. 29.31%) and “medicine or other health reasons” (15.79% vs. 20.69%) compared to control group (Table 3).

People who receive the loan use the money to establish or expand businesses that create income for their families to feed, house, educate and provide health care for their children.

They can also put aside money for a better future. Microfinance is the provision of financial services to low income clients; solidarity lending groups and self-employed who traditionally lack access to banking and related services.

The research helps the young business community to avail the facilities to explore in the business ambiance.

Table 3: Why are you saving?  
(Treatment vs. Control Group)

Sources of Loans	Total %	Mature Clients %	Ex-Clients %	Treat. Group %	Control Group %
Future investment in business	88 30.77	57 32.57	20 37.74	77 33.77	11 18.97
Future purchase of basic goods	54 18.88	29 16.57	8 15.09	37 16.23	17 29.31
For medicine or other health reasons	48 16.78	28 16.00	8 15.09	36 15.79	12 20.69
To make improvements to house	42 14.69	25 14.29	9 16.98	34 14.91	8 13.79
For education costs	39 13.64	23 13.14	11 20.75	34 14.91	5 8.62
For animals	8 2.80	3 1.71	2 3.77	5 2.19	3 5.17
For weddings or other ceremonies	23 8.04	10 5.71	7 13.21	17 7.46	6 10.34
To pay loan obligation	42 14.69	26 14.86	8 15.09	34 14.91	8 13.79
Other	12 4.20	10 5.71	0 0.00	10 4.39	2 3.45

As shown in the Table 4 below, a higher proportion of the treatment group has made a withdrawal from their savings over the last 12 months than control group (64.04% vs. 18.92%).

Table 4: Withdrawn from savings  
(Treatment vs. Control Group)

	Total %	Mature Clients %	Ex-Clients %	Treat. Group %	Control Group %
Yes	80 52.98	53 61.63	20 71.43	73 64.04	7 18.92
No	71 47.02	33 38.37	8 28.57	41 35.96	30 81.08

## CONCLUSION

It's true that the most important finding in the last two decades in the world of microfinance did not come from the world of the rich or the relatively well off, it has come from the countries encourages microfinance. It is the practice of offering small, collateral free loans which otherwise would not have access to the capital which is necessary to begin a small business or other income generating activities.

It has been observed that microfinance institutions are not only contributing significantly to the development of finance sector in Albania, but also they play an important role to eradicate poverty by providing much needed capital to low income people which are able to generate remarkable return on the investment. For these reasons, microfinance institutions that want to increase their relevance for the poor are well advised to innovate with financial services for income and saving deposits generation. Public action can further promote this by supporting pilot projects and related action research.

More rigorous data gathering, such as conducting further in-depth studies with a larger sample, and better controlling for other external factors is necessary in order to isolate the contribution of the IMFs loans on a client's life. Analysis of this data would provide a more complete understanding of how and to what degree, if at all; financial services play a role in improving the standard of living and feelings of empowerment in clients, and especially on saving deposits.

This research paper can serve as a starting point for more investigations on specific measurements of the impact of microcredit on multiple dimensions on customer lifehood, derived from their changing perspective of saving deposits that they will be able to increase and better manage for their future investments.



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