DOES MICRO CREDIT CREATE SOCIAL AND ECONOMIC DEVELOPMENT

Forcim KOLA PhD Candidatee
kolaforcim@gmail.com

Bajram KORSITA PhD
bajramkorsita@yahoo.com

Arjan ABAZI Prof.Dr
abazi_a@hotmail.com

Abstract
New businesses frequently face the lack of capital funding at the early stage of their entrepreneurship. This regards to the low level of credibility by the bank sector as they are constantly seen as unable to guarantee the repayment of a business loan. Micro entrepreneurs can't meet the banks requirements such as financial reporting and recorded data. The cost of processing micro loans and the risks associated with lending to micro businesses make financial institutions hesitant to develop services for micro entrepreneurs. In order to start up a business a number of entrepreneurs lend from friends and family. Even this is an adequate way for sustainable businesses, generally a large amount of funding is needed rather than personal saved earnings. This article focuses on different aspects of micro financial sector in Albania. Facts and figures are used to support how and at what extend entrepreneurial activities are being affected by the micro lending practices. We also intend to analyze how micro credit system can be beneficial to this group of small entrepreneurs. As the paper is divided into two main parts, the first part presents data of the micro lending process in Albania, its progress and challenges, its contribution in business skills development. The second part deals with new appropriate practices to be served to small entrepreneurs by micro lending institution in Albania in a perspective view.
Keywords; Micro crediting, entrepreneurship, job creation, economic development.

1. Introduction

In recent years, micro finance has gained growing recognition as an effective tool in improving the quality of life and living standards of very poor people. This recognition has given rise to a movement that now has a global outreach and has penetrated in the remote rural areas, besides slums and towns.

Micro Finance projects extend small loans to poor people for their varied needs such as consumption, shelter, income generation and self-employment, etc.

In some cases, micro finance programmes offer a combination of several services to their clients, in addition to credit. These include linkages with savings and insurance avenues, skill development training and marketing network.

Micro credit programmes, thus, assume significance since they facilitate poverty reduction through promotion of sustainable livelihoods and bring about women empowerment through social and collective action at the grassroots. In addition, micro finance interventions lead to increased social interaction for poor women within their households and in the community, besides, greater mobility that increases their self-worth and self-assertion in the social circle.

2. Methodology

This study has been done in 2011 in order to assess, on a national scale, the development impact of MFI programmes in relation to different product designs and delivery systems in various parts of the country aiming to measure the affect of micro credit in entrepreneurial activities. Keeping in view the anticipated socio-economic impact of its micro finance programme, the study has been focused on how the micro lending practices has affected entrepreneurial activities, to assess also the impact at the beneficiary level specifically the impact on enterprise level.

- *Research Questions;*

The primary objective of this study was to find out how micro lending practices affect entrepreneurial activity in Albania taking into consideration many business activities and measuring to them some attributes before and after taking the loan from any microfinance institution in Albania.

The key research questions addressed during the study include:

- Who is being served through micro finance?
- Does micro finance lead to poverty alleviation?
- Does micro finance contribute to enterprise growth and income?
- How does it affect rural women, particularly regarding empowerment?
- What effect does it have on other systems or sources of finance – both formal (*local banks*) and informal (*moneylenders*)?

These basic questions were translated into hypothesis linking input variables (MFIs services) and moderating variables (enterprise client characteristics, programme characteristics and others) to ascertain the impact on entrepreneurial activity in Albania.

- *Sampling Design;*

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 and savers.

A total of 288 members of the Microfinance Institutions clients in Albania were interviewed for this survey which was conducted during January, 2011.

The small group interview sessions were conducted with clients who were stratified and segmented only along gender lines to identify any differences in outcome by gender.

➢ *Data Collection and Analysis;*

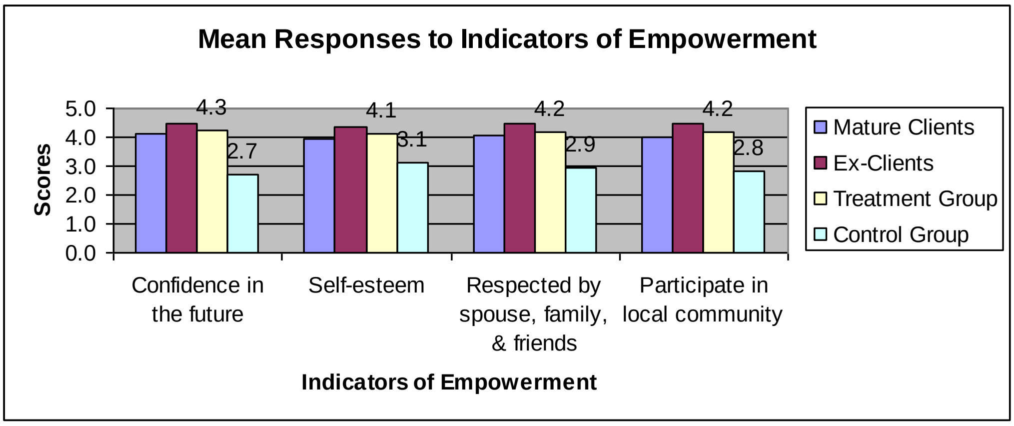
The study combined the application of both quantitative and qualitative tools including questionnaire on different indicators addressed to beneficiaries and other stakeholders. Qualitative information was collected through *Focus Group Interviews*, *Case Studies* and *Semi-structured interviews* to understand the situations that people face, how they use and perceive micro finance, especially enterprises served by microfinance sector in Albania.

The quantitative data of sample enterprises were analyzed to find out percentages, averages and frequencies for various indicators. The results were subjected to longitudinal analysis for two types the *treatment group* and the *control group*, and the same were tested for statistical significance. The results of comparisons were studied/super-imposed to find out whether the behavior of a particular indicator supports the micro finance intervention as the cause of change.

The quantitative results were supplemented by qualitative observations obtained from *Case Studies*, *Focus Group Interviews* and *Semi-structured interviews*.

3. Individual empowerment

Treatment group reports more high levels of personal empowerment than control group. The mean reported empowerment levels between the treatment and control groups differ significantly on some of the four empowerment indicators when tested for all respondents in the sample. MFIs membership is actually associated with a higher score on the composite attitude indicating participation in program to be associated with higher levels of empowerment. It could thus be concluded that being MFIs member leads to higher levels of empowerment and positive feelings as in the chart below;



Key: 1=Strong disagree; 2=Disagree; 3=No opinion; 4=Agree; 5=Strongly agree

Chart 1. Mean Responses to Indicators of empowerment - Treatment and Control Group

As for "confidence in the future" we find these findings (4.3 vs. 2.7) for treatment group compared with control group. Also for all other indicators of empowerment we find more positive values for the treatment group.

4. Changes in contribution to household income:

We can conclude that the treatment and control groups differ in the changes to their contribution to household income over the last 12 months. Respondents reported that it had "increased greatly" over the last 12 months, as for the treatment group compared to control group the figures are (38.89% vs. 0.00%), with almost 50.00% in treatment group reporting that the amount they contributed to household income had "increased" compared to 5.71% reported by the control group, and for "decreased" we have the figures (3.33% vs. 34.29%) treatment group compared to control group. Once again, this likely reflects more factors related to microfinance program participation than general economic conditions or other trends.

That MFIs microfinance program participation is associated with contributions to household income is evidenced by the figures from the survey. We can see a positive impact on treatment group, compared to control group.

It would appear that the economic environment has been quite challenging over the past years, with many people experiencing a decrease in their income, something related to economic crises. In an environment of generally falling incomes, it is really surprising to find that program participation is associated with an increase in income.

5. **Dreams and goals**

The personal dreams and goals of clients fall into two categories: i) to provide basic needs for the family, such as food, clothes, and education for the children and ii) aspirations for their family members (children) to achieve their fullest potential in society. Three women interviewed expressed both dreams, while five men interviewed more often expressed the latter.

For virtually all clients interviewed, their dreams and goals did not change before and after having joined the microfinance programme (being MFIs clients).

Prior to joining MFIs, several clients shared the same dream - to be able to provide basic needs such as food, clothing, a house, and education for their families. Although many clients interviewed had been members of the MFIs for at least 24 months, these clients continued to have meeting their basic needs as a dream.

Perhaps this is not surprising given the low standard of living that most clients seem to have experienced before joining the microfinance programme and unfortunately, continue to experience. For these clients, providing basic needs is still a dream as opposed to a reality.

One 42-year old woman indicated that the extra income from her small family business has enabled her and her family to guarantee every day food, which was not the situation before the loan. Although she generates more now from her small business than she did before the MFIs loan, one of her goals continues to be to have enough food and what kind of food she wanted.

Although the loans have helped clients meet their goals to some degree, they are realistic about what a loan can and cannot do.

When asked if their dreams had changed after having had been able to increase their businesses and earn more income, there was consensus among a group of five clients interviewed that only “little by little”, were their lives going to change.

There did not seem to be a difference based on gender on how participation in the MFIs microfinance programme affected how people felt. Instead, the loans seemed to have made the greatest impact on those to whom the loan meant an opportunity for employment.

Many of the respondents earned an income (from salaried position or their own business) before receiving a loan from MFIs. For those clients who were previously unemployed, especially the women who had no means of income or very rudimentary businesses, the loans have made them more content with their lives. For the women, the loans have given them an opportunity to do something.

The women indicated that before access to a loan, they would stay at home with nothing to do and were bored. With their business activities, however, they are engaged, motivated and feel “happy”.

One woman who owned a small trading business felt she was often “*the object of humiliation”* when she would try to borrow loans from others for her business before joining the microfinance MFIs programme. She has not felt that since joining and obtaining loans from MFIs.

Nine of the male clients interviewed felt relatively more positive, “not bad” before joining the microfinance programme, as opposed to other clients, male and female who responded “so-so” and seven women who responded “not well at all.” The nine male clients, however, were also employed before joining the programme, and so did not experience the significant transition from inactivity and boredom to activity and motivation that some of the women experienced.

For the clients who were employed before joining the microfinance programme, it seems that the loans have helped their businesses, but not affected how they feel about themselves to the degree that it has with those clients who had little to no income before receiving the MFIs loan.

6. The contribution to enterprises

Hypothesis: Micro crediting increases enterprise activities

With micro credit support, clients have either started new or expanded existing enterprises which not only provided better employment opportunities but also increased enterprise income.

6.1 The number of suppliers

It has been recorded also the number of suppliers before and after the loan for 10 business activities credited by MFIs, as they are shown in the table below; Using the Paired *t*-test calculations made with STATA we can test the hypotheses for comparing two related samples of the number of suppliers for MFIs clients before and after taking the loan, or if the MFIs lending process has been efficient or not in increasing the number of suppliers of client business activities, contributing in this way in the value chain process.

Business activities	1	2	3	4	5	6	7	8	9	10
Before loan	5	8	6	1	6	3	5	1	20	10
After loan	7	17	10	3	17	8	7	2	30	14

Two-Sample Paired t Test

Paired T-Test of mean difference = 0 versus not = 0									
Alternative hypothesis: true mean of differences is not equal to 0									
N	Mean	StDev	SE Mean	Corr	95% Conf Interval	t	df	p-value	Alt Hypothesis
10	-5.00	3.6818	1.1643	0.9392	[-7.633; -2.366]	-4.2945	9	0.0020	Accept

Table 1. Hypotheses testing for comparing two related samples of the number of suppliers

As shown in the table above, we have to reject the null hypotheses, concluding that there is a difference in the number of suppliers before and after the loan or that the lending process of MFIs has been successful in increasing the number of suppliers for enterprises served expanding so the levels of value chain.

6.2 The number of employees

The number of employees before and after taking a loan from MFIs has been recorded for 10 enterprises as in the table below:

Business activities	1	2	3	4	5	6	7	8	9	10
Before loan	1	2	12	0	1	2	2	2	4	1
After loan	3	5	19	2	2	5	4	5	7	2

Can the MFIs crediting be judged to be a success in job creation? Let's test at 5 per cent level of significance, using paired t-test as well as A-test.

Paired *t*-test is a way to test for comparing two related samples, involving small values of *n* that does not require the variances of the two populations to be equal, but the assumption that the two populations are normal must continue to apply.

For a paired *t*-test, it is necessary that the observations in the two samples be collected in the form of what is called matched pairs i.e., "each observation in the one sample must be paired with an observation in the other sample in such a manner that these observations are somehow "matched" or related, in an attempt to eliminate extraneous factors which are not of interest in test. Such a test is generally considered appropriate in a before-and-after-loan study.

Solution: Let the number of employees before loan be represented as X and the number of employees after loan as Y and then taking the null hypothesis that crediting does not bring any improvement in increasing number of employees, we can write:

H_0: $\mu_1 = \mu_2$, which is equivalent to test H_0: $\bar{D} = 0$

Ha : $\mu_1 < \mu_2$ (as we want to conclude that crediting has been a success).

Because of the matched pairs we use paired t-test and work out the test statistic't' as following :

$$t = \frac{\bar{D} - \mathbf{0}}{\sigma_{diff} \cdot \frac{}{\sqrt{n}}}$$

To find the value of t, we first work out the mean and standard deviation of differences as under:

Business activities	The number of employees before loan X_i	The number of employees after loan Y_i	Difference ($D_i = X_i - Y_i$)	Difference squared D_i^2
1	1	3	-2	4
2	2	5	-3	9
3	12	19	-7	49
4	0	2	-2	4
5	1	2	-1	1
6	2	5	-3	9
7	2	4	-2	4
8	2	5	-3	9
9	4	7	-3	9
10	1	2	-1	1
n=10			$\Sigma \mathbf{D_i} = -27$	$\Sigma \mathbf{D_i^2} = 99$

$$\bar{D} = \frac{\Sigma \mathbf{D_i}}{n} = -\frac{\mathbf{27}}{\mathbf{10}} = -\mathbf{2.7}$$

$$\sigma_{diff.} = \sqrt{\frac{\Sigma \mathbf{D_i^2} - (\bar{\mathbf{D}})^2 * \mathbf{n}}{n - \mathbf{1}}} = \sqrt{\frac{\mathbf{99} - (-\mathbf{2.7})^2 * \mathbf{10}}{\mathbf{10} - \mathbf{1}}} = \mathbf{1.7029}$$

$$t = \frac{-2.7 - \mathbf{0}}{\frac{1.7029}{\sqrt{10}}} = \frac{-2.7}{0.5385} = -5.0138$$

Degrees of freedom = (n – 1) = 10 – 1 = 9. As H_a is one-sided, we shall apply a one-tailed test (in the left tail because H_a is of less than type) for determining the rejection region at 5 per cent level of significance which come to as under, using table of t-distribution for 9 degrees of freedom:

R: $t < -1.833$

The observed value of t is – 5.0138 which fall in the rejection region and thus, we reject H_0 at 5 per cent level and conclude that crediting of MFIs has been successful in job creation, or the number of employees after the loan is significantly higher than the number of employees before the loan.

6.3 The number of clients

On the aim of this report study there have been recorded also the number of clients before and after the loan for 10 business activities credited by MFIs, as they are shown in the table below; Using the Paired *t*-test calculations made with STATA we can test the hypotheses for comparing two related samples of the number of clients for MFIs clients before and after taking the loan, or if the MFIs lending process has been efficient or not in increasing the number of clients of business activities, contributing in this way in the value chain process by increasing the number of clients.

Business activities	1	2	3	4	5	6	7	8	9	10
Before loan	30	50	45	7	150	65	80	5	30	30
After loan	50	78	56	12	200	125	110	9	35	70

Two-Sample Paired t Test

Paired T-Test of mean difference = 0 versus not = 0									
Alternative hypothesis: true mean of differences is not equal to 0									
N	Mean	StDev	SE Mean	Corr	95% Conf Interval	t	df	p-value	Alt Hypothesis
10	-25.3	19.9168	6.2982	0.9687	[-39.54; -11.05]	-4.0170	9	0.0030	Accept

Table 2. Hypotheses testing for comparing two related samples of the number of clients

As shown in the table above, we have to reject the null hypotheses, concluding that there is a difference in the number of clients before and after the loan or that the lending process of MFIs has been efficient in increasing the number of clients of enterprises served.

7. Perception and decision making

❖ *Perception by household members*

The general perception from the clients interviewed was that financial improvement leads to more harmonious family relations and positive feelings toward the provider in the family. As basics like food, clothing and school needs are met, family members are happier and there is more respect by family members for the provider.

Interestingly, there did not seem to be differences in how male and female clients were perceived by their household. *"I am the bedrock of my family*" was the expression shared by four women and five men. One man indicated that "I have an important place in my family even though I am not the sole financial provider." *"Head of the house"* was the expression used by three other clients, two men and one woman.

Female clients, who had borrowed money from the MFIs, indicated that they made decisions on how the loan was used and what was done with the income earned from the business. There was no indication from the married women that their husbands controlled either use of the loan proceeds or use of the additional income generated by the business and made possible by the loan.

❖ *Decision-making about family issues*

The loans seem to have had more of an impact on the married female clients who were able to start their own businesses because of the loans. As income earners, they are now more involved in the decision making process for issues such as schooling for children and healthcare, than they were before.

Five of the men indicated they were still the head of the household and the decision maker for household affairs, even though they were not the sole bread-winner of the family.

8. Conclusions

Based on the survey and observation results we can conclude that lending practices have a positive affect on entrepreneurial activities in increasing employee salaries, in job creation or generating employment, in increasing profit margin of enterprises served as shown by the cases and models analyzed in the above text.

Besides credit, the poor need savings services to bridge income fluctuations and meet emergency needs. MFIs are not permitted to mobilize deposits, hence, are unable to offer savings services to their clients, so it is strongly recommended that MFIs may be permitted to mobilize savings at least from their own clients/members on the condition that they will follow prudential accounting norms. MFIs should offer interest on savings and savings be made withdraw able.

MFIs are often pressurized to bring down interest rates to unreasonable levels in the name of service to the poor without provision of any support. MFIs have to charge interest rates on loans to fully cover cost of funds, operational costs, loan loss provisions and reasonable margin of profit for servicing equity and building sustainability.

MFIs should follow a rational and transparent interest policy to avoid suspicions and encourage professionalism in the sector. MFIs may take steps like rationalizing the cost of funds by accessing various sources of funds, increasing operational efficiency, involving local small NGOs, etc.

Borrowers are often unaware of the effective cost of borrowing and complain about the high cost of loan and lack of transparency. MFIs should be transparent with respect to interest rate and other costs charged and effective cost of credit to the borrowers.

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