



EMN Legislative Mapping Report ALBANIA

May 2020



This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

- 1 Regulation of lending activity
- 2 Supervisory framework for non-bank lending
- 3 Products
- 4 Incentives and support
- 5 Development of existing framework for non-bank microcredit provision
- 6 Inclusive entrepreneurship and microenterprise development

1

Regulation of Lending Activity

Albanian institutions authorized to provide microloans include:

1. **Non-bank financial institutions** (NBFIs) that are further classified into two categories¹: (i) institutions licensed to conduct lending operations, and (ii) institutions licensed to conduct microcredit operations (microcredit financial institutions).

In order to qualify as a microcredit financial institution, NBFIs must meet the following criteria:

- ➔ lending and advisory services on lending are the sole scope of its activity;
- ➔ the average value of a loan extended to a borrower does not exceed the value of the microcredit, which is a maximum of Lek 600.000 (around EUR 4.800); and,
- ➔ at least 50% of the credit portfolio is composed of microcredit.

NBFIs are regulated by the regulation "On licensing and activity of non-bank financial Institutions"² and supervised by the Bank of Albania (BoA).

2. **Savings & credit associations** and their unions. Savings and credit associations (SCAs) are legal entities comprised of voluntary unions of natural or juridical persons, who deposit their money into the company and whose funds are used by the company to issue loans to members.³

SCAs and their unions are required to obtain a license from BoA and they must follow the strict rules of the BoA supervisory board, including the regulation "On the licensing of Savings and Credit Associations and their Unions."⁴

1. https://www.bankofalbania.org/plugins/pdfjs/1.5.188/web/viewer.html?file=https%3A%2F%2Fwww.bankofalbania.org%2Frc%2Fdoc%2FNo_01_dt_17_01_2013_Regulation_on_licensing_and_act_of_NBFI_6135.pdf

2. This was approved by the Supervisory Council Decision No.1 of 17 January 2013.

3. https://www.bankofalbania.org/Rreth_Bankes/Legjislacioni/Ligj_52_2016_Per_shoqerite_e_kursim-kreditit_dhe_unionet_e_tyre.html

4. This regulation was adopted by decision No. 11, dated 27 February 2002, later amended by Decision No. 09, dated 12 February 2003, and decision No. 55, dated 12 September 2012 of the BoA Supervisory Council.

2

Supervisory Framework for Non-Bank Lending

The lending activities of NBFIs are supervised by BoA, which imposes the following requirements:

- ➔ In terms of license granting: NBFIs have to respect the minimum capital requirements⁵, to have founders with good reputation, legal resources, legal registered and regulated activities, the financial potential to maintain the capital to the minimum required, or to provide necessary funds for the institution to continue its activities, to have highly qualified administrators, and adhere to all the required structures, policies and procedures.
- ➔ In terms of reporting, control and business functioning: NBFIs must submit quarterly reports that include financial data as well as portfolio quality information, operational risk reports and a list of additional compliance ratios, such as liquidity, portfolio provisions requirements, etc. In addition, NBFIs must submit an annual report and audited financial statements each year no later than the first financial quarter. Furthermore, they have to notify BoA in case of major organisational changes such as the modification of the capital, the opening of new branches, addresses change, etc.

Moreover, there are strict regulations about transparency, risk management, AML regulation and corporate governance that NBFIs have to adopt in their internal policies and procedures before the inspection from BoA. Also, they have to share clients' data to the national credit bureau that is under the management of the BoA. This credit bureau provides NBFIs with information on credit history of clients.

3

Products

The Albanian regulation on the lending activities of NBFIs does not distinguish between different types of microcredit products. However, referring to current practice in the sector, MFIs provide loans for both business and personal purposes.

There are no specifications for the minimum and maximum loan amount for NBFIs in Albania.

The only specification is related to institutions licensed to conduct microcredit operations, where the loan portfolio should be at least 50% microloans, with an average loan amount not exceeding EUR 4,800 (Lek 600,000). The NBFIs regulation does not establish maximum loan durations⁶ or impose interest rate caps on microcredits.

For non-microcredit NBFIs, the only restriction related to maximum loan amounts is that loans can not exceed 20% of the registered capital on a group exposure. Concerning SCAs, the maximum loan amount must not exceed 12% of their capital.⁷

4

Incentives and Support

In Albania, there are some national/regional funds dedicated to the support of microcredit provision, especially guarantee funds, as well as funds for on-lending (senior loans), equity and business development services (BDS). Some of the most important support includes:

- ➔ IPARD and IPARD II, which are administered by National Agency for Rural Development under the Ministry of Agriculture;
- ➔ financing lines by Black Sea Development Bank to assist start-up entrepreneurs or agricultural businesses; or
- ➔ guarantee lines by European Bank for Reconstruction and Development.

Not all of these financing instruments are automatically tailored for MFIs, especially the funds under the administration of government, which typically provisioned by the state agency itself.

In Albania, there is no tax deduction scheme available to individuals or organizations to financially support microcredit provision.

5. The minimum capital required for microcredit financial institutions is Lek 15M (around EUR 119,545). Concerning NBFIs, it depends on the wide of services provided, and it's Lek 100M (around EUR 796,990) for those that are exclusively in lending activities.

6. According to current business practices, the average term for business microloans is between 36 - 48 months, and between 6 - 24 months for personal microloans

7. <https://openjicareport.jica.go.jp/pdf/12286316.pdf>

5

Development of the Existing Framework for Non-Bank Microcredit Provision

The following challenges have been discussed in several workshops organised by the Albanian Microfinance Association (AMA) together with the regulatory and key stakeholders in the market:

- ➔ Tax law on loan provisioning differs between BoA and IFRS with respect to portfolio write-off criteria. BoA write-off criteria advise write-offs only after 365 days after execution order extract which is not suitable for the small and short-term loans that MFIs provide (average loan term of 12 months).
- ➔ Digital signatures are partly available on papers but not realistic in practice, and therefore limit the digital transformation of MFIs in Albania.
- ➔ Limited access to client credit worthiness: currently, the BoA credit bureau only provides customer credit history. However, a full credit bureau report containing information on social and tax payments, electricity and water bills, etc. (already digitised information by state offices) will provide more accuracy for the development of a credit scoring system.

Moreover, according to AMA, the microfinance industry does not have a clearly defined regulatory framework. Microfinance activity is regulated but only as a subsector of the banking industry and there is no ad hoc law that captures the specificities of the microcredit sector (with the exception of some areas such as the licensing process and risk management that have specific BoA regulations).

6

Inclusive Entrepreneurship and Microenterprise Development

Currently, some of the main challenges faced by entrepreneurs are the lack of consumer protection, access to capital and the necessary financial skills to establish and develop a business. Except facilitation in business registration and establishment, entrepreneurs have no welfare bridge to support them in the transition out of unemployment. The government has not designed or implemented any social schemes to support innovative start-ups and other new businesses that create jobs and expand the tax base. No disaster related support financial schemes currently exist to support entrepreneurs as a result of the unexpected worsening of circumstances (such as the COVID 19 Pandemic or the 2019 earthquake). Entrepreneurs are left to spontaneous decision making in emergency conditions but are not a part of a centralised response.

Secondary schools in Albania do not incorporate entrepreneurship nor is there any form of awareness creation run by the state on inclusive entrepreneurship. In addition, no publicly subsidized BDS are available to microentrepreneurs. Active organisations supporting inclusive entrepreneurship and microenterprise development in Albania are mostly non-profit organisations, as well as some regional development institutions such as EBRD, USAID projects, KFW, GIZ, etc. These organizations promote, among others, social enterprises, job creation, gender equality in start-up businesses, and the recovery of assets ceased by banks.

Finally, some initiatives promoting inclusive entrepreneurship and microenterprise development are undertaken by AMA, which also plays a pivotal role in supporting new entrepreneurs, start-ups, female entrepreneurs, and agro-businesses as supply chain actors.



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