

ACCESS TO FINANCE

ON IMPROVEMENT OF FINANCING INSTRUMENTS

- PERCEPTIONS AND INSIGHTS FROM THE BUSINESS COMMUNITY AND FINANCIAL SECTOR REPRESENTATIVES

INVESTMENT COUNCIL MEETING

Tirana, 12 November 2024

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CONTEXT

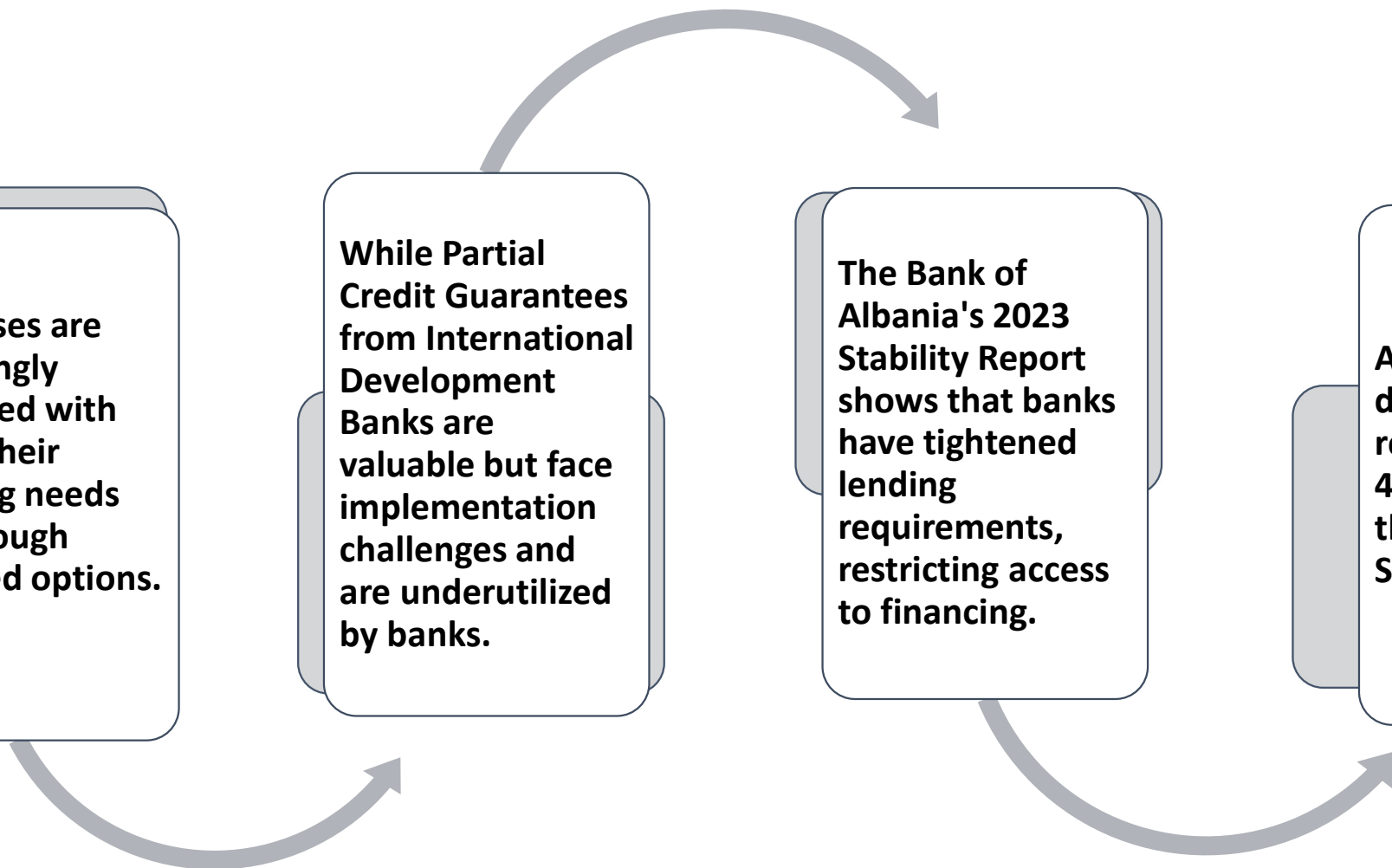
Why is there a need to revisit the topic of Access to Finance by IC?

Businesses are increasingly concerned with having their financing needs met through improved options.

While Partial Credit Guarantees from International Development Banks are valuable but face implementation challenges and are underutilized by banks.

The Bank of Albania's 2023 Stability Report shows that banks have tightened lending requirements, restricting access to financing.

Albania's loan-to-deposit ratio remains stable at 47%, according to the 2023 Financial Stability Report.



CONTEXT – KEY INSIGHTS ON POLICY DYNAMICS



Bank of Albania Strategy

2024-2026

Focuses on increasing financial education and inclusion.



Bank of Albania Strategy for Education and Financial Inclusion 2024-2026

Aims to boost financial culture and use of regulated services amid sector complexity and consumer risks.



Business Investment and Development Strategy

2021 -2027

Access to finance is a major barrier for SMEs. 80% of investments are funded internally, with only 12% from banks. Non-bank financing is limited.



INTERNATIONAL REPORTS

EU PROGRESS REPORT

Notes moderate progress in finance modernization, but capital markets are just beginning.

OECD

SMEs face barriers like strict collateral, limited credit guarantees, and no regulation for private equity or crowdfunding. Stock and debt markets are growing with new regulations.

CONTEXT – KEY PUBLIC INSTITUTION REFORMS

Rapid digitalization of public services is driving business transformation, particularly in banking, and reshaping access to finance.

Fiscalization enhances transparency by providing tax authorities with accurate financial data, benefiting banks with quicker, more secure lending decisions.

Initiatives by the Bank of Albania:

- Law on the Basic Payment Account
- SEPA application

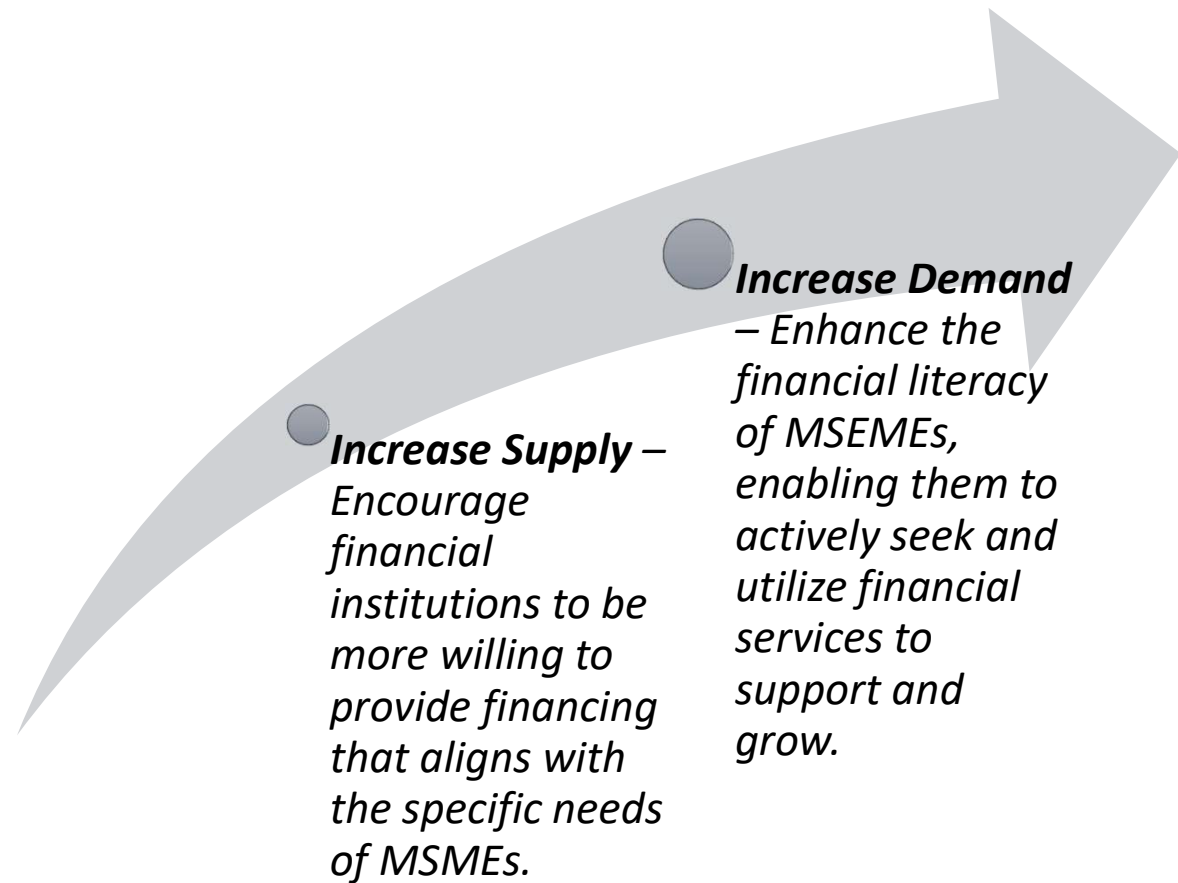
These initiatives foster a more inclusive financial environment.

Post-Covid tourism growth has increased the use of electronic payment methods (e-banking, cards), further advancing digital financial services.

OBJECTIVE

Objective: *To identify the key barriers limiting access to finance, and to develop actionable recommendations for improving financial inclusion and enhancing financing options for MSMEs.*

Approach: *Dual approach focusing on both demand-side (empowering MSMEs) and supply-side (encouraging financial institutions) solutions to improve access to finance.*



METHODOLOGY

Desk Research

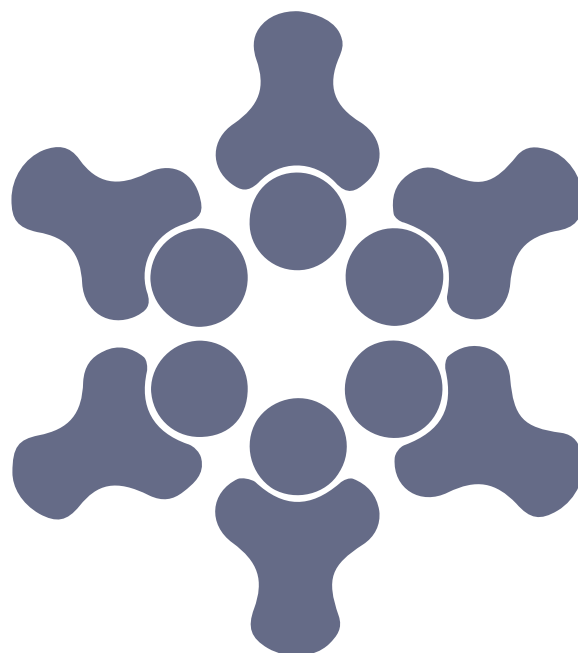
- **Document Analysis:** Reviewed laws, regulations, and practices
- **Reports:** Integrated national and international findings
- **Database:** Used data from the Investment Climate and Business Issues (2015-2023)

Qualitative Research

- **Interviews:** Collected insights from key stakeholders
- **Focus Groups:** Discussed key issues with WECCA, AAB, AMA, and BoA, MEKI, AIDA
- **Analysis:** Integrated findings from the May 2024 MSME Finance Assessment and Action Plan by WB and experts

Quantitative Research

- **Business Survey:** Assessed lending challenges and access to finance (221 businesses)
- **Bank Survey:** Explored lending process constraints (9 banks)
- **NBFI Survey:** Gathered insights and recommendations on lending practices (8 institutions)
- **Surveys had four main pillars:**
 - ❑ Access to finance
 - ❑ Determining factors in lending
 - ❑ Awareness of financial products
 - ❑ Banking digitalization



2. FINDINGS

2.1 FINDINGS - DATA REPORTING ON MSMEs

The use of varying definitions for MSMEs leads to inconsistent data reporting across institutions, complicating accurate interpretation of the lending landscape for MSMEs and the development of targeted, effective support policies.

Challenges due to varying definitions of MSMEs

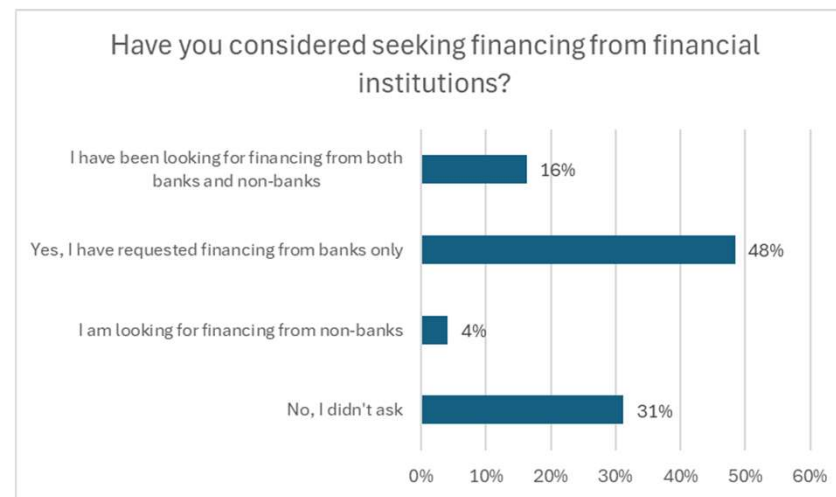
Different institutions, such as microfinance entities, commercial banks, the Bank of Albania, INSTAT, and others, apply varying definitions of MSMEs for reporting purposes. These discrepancies often arise from differing legal definitions, such as those outlined in the MSME law, accounting standards, and specific banking criteria.

While acknowledging it, we would like to highlight that lack of a standardized definition leads to inconsistencies in the data, making it more challenging to make informed decisions for effective policy development.

2.2 FINDINGS - DEMAND AND SUPPLY

Businesses are increasingly recognizing the need for credit from financial institutions. However, there is a disconnect between the sectors with the highest demand for financial resources and those that financial institutions are most inclined to support.

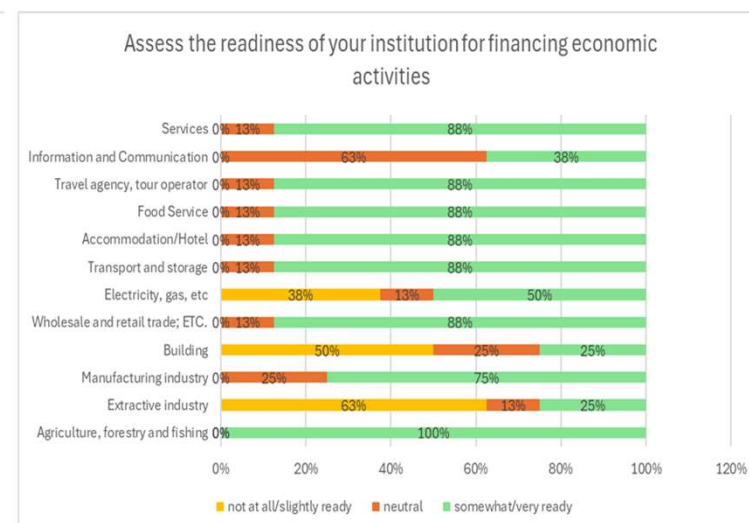
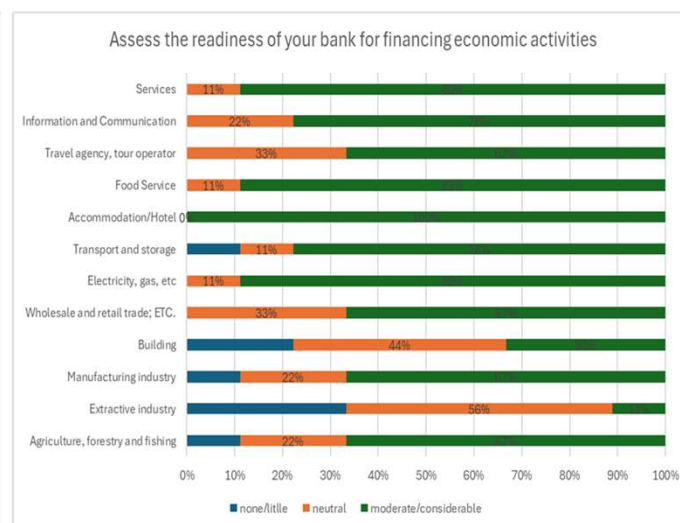
Approximately 7/10 companies, (68%), mostly medium and large businesses, seek financing through the financial system. Of these, 7 out of 10 are clients of banks, 2 out of 10 utilize both banks and non-bank institutions, and 1 out of 10 relies solely on non-bank institutions.



2.3 FINDINGS - PRIORITY OF ECONOMIC SECTORS

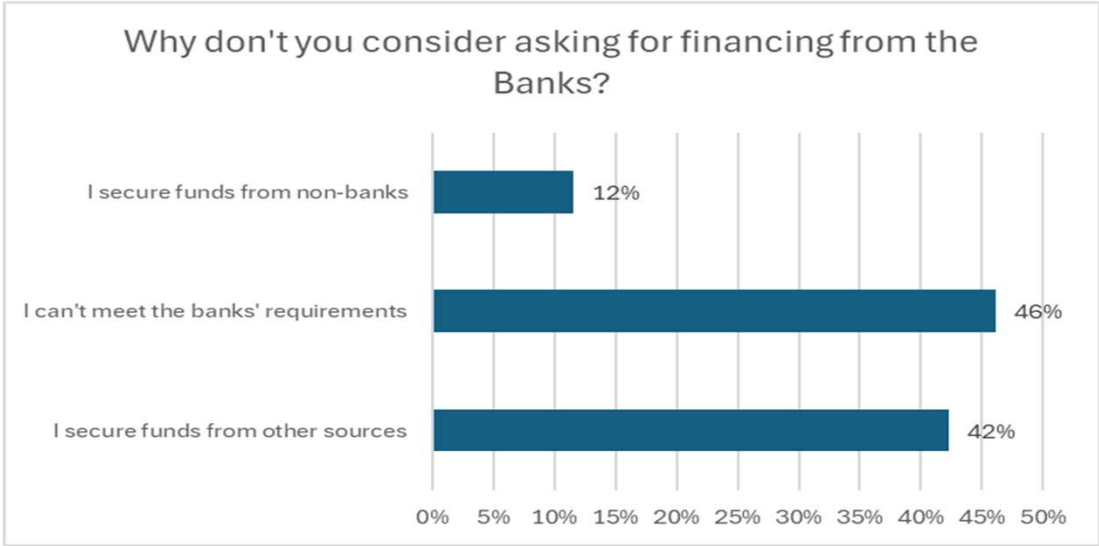
There is a mismatch between the industries that perceive a higher need for financial support and the sectors banks prioritize for financing.

Data from our questionnaire indicate that the **agriculture, construction, and processing industries** perceive a greater need for financial resources. In contrast, responses from 9 out of 11 banks show that they are **more inclined to finance tourism, energy, and service sectors**. Non-bank institutions, on the other hand, are more willing to **provide financing for agriculture, tourism, and services**.



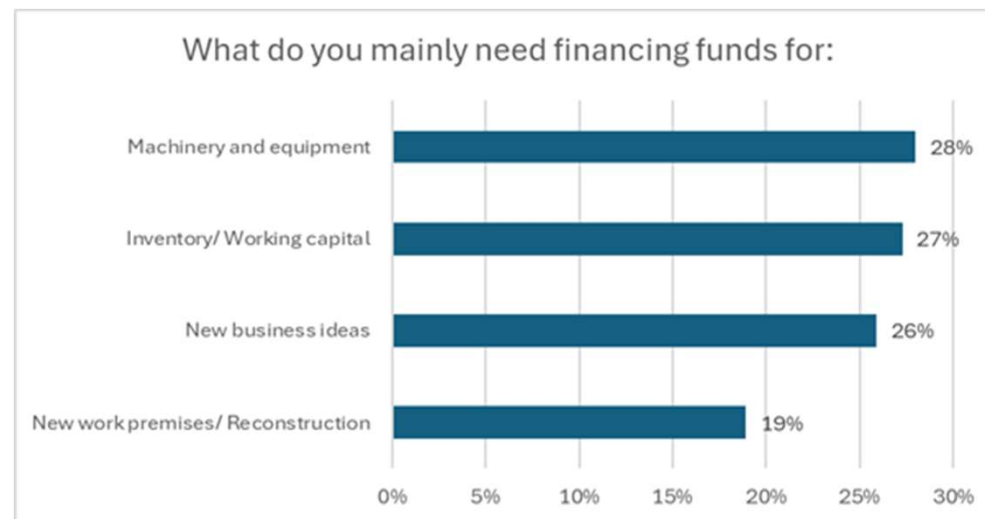
2.4 FINDINGS - INABILITY TO MEET BANK'S REQUIREMENTS

Many companies, particularly MSMEs, opt not to seek funding from commercial banks due to challenges in meeting stringent financing criteria. This was confirmed in our focus group, where businesses expressed concerns over the excessive and escalating documentation requirements. They described the process as highly bureaucratic, citing unnecessary demands, lengthy procedures, and substantial delays—even collateral release confirmations that can take several months to finalize.



2.5 FINDINGS - FUND'S DESTINATION

Our findings indicate that the primary objectives for requesting credit funds are technology upgrades, working capital, and new business ventures. Distinct sectors display unique financing needs aligned with their specific operational priorities: the tourism sector primarily seeks funds for new facilities, the construction sector focuses on inventory and technology financing, while the industrial sector prioritizes technological upgrades and inventory management. In agriculture, financing needs center on technology, inventory, and developing new business ideas.



2.6 FINDINGS - FACTORS INFLUENCING LENDING DECISIONS

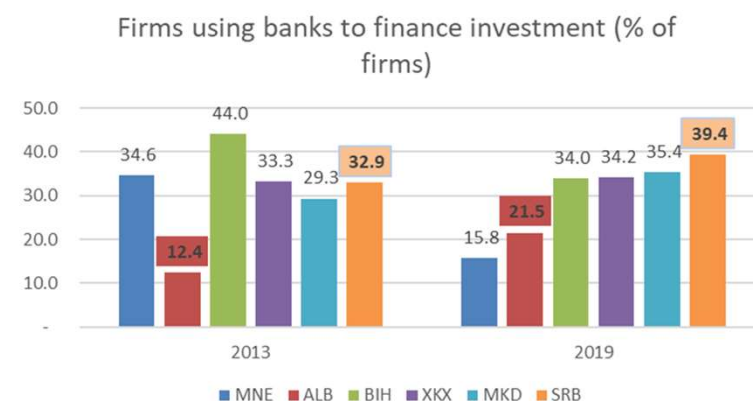
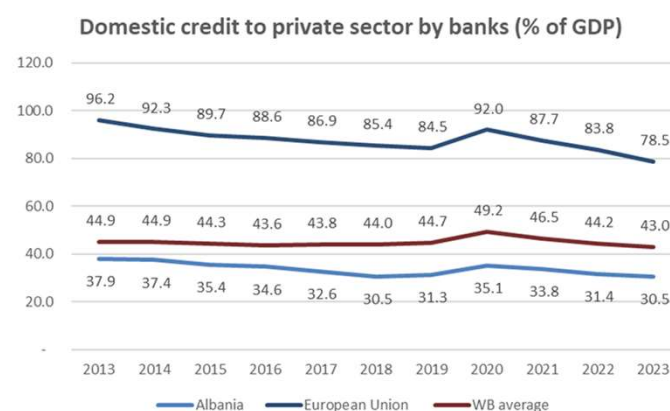
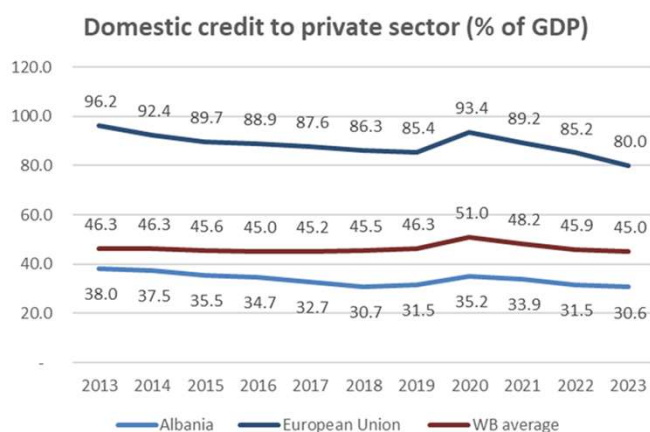
From a business perspective, interest rates, collateral, and transparency are pivotal factors in lending decisions. For MSMEs, collateral is especially important, as it plays a critical role in securing financing and addressing lenders' assurance requirements. Larger enterprises, however, prioritize the speed of decision-making, with quick access to funds being essential for their operations.

Both financial institutions and businesses agree that credit analysis requires time due to the thorough verification processes banks undertake to assess financial and risk exposure. The absence of a national credit scoring system that could expedite banking decisions further complicates the lending process. Additionally, banks emphasize the need for improved access to e-Albania to streamline client data management and administrative tasks.

2.7 FINDINGS - ARE MSMEs IN THE “BANKING LOOP”?

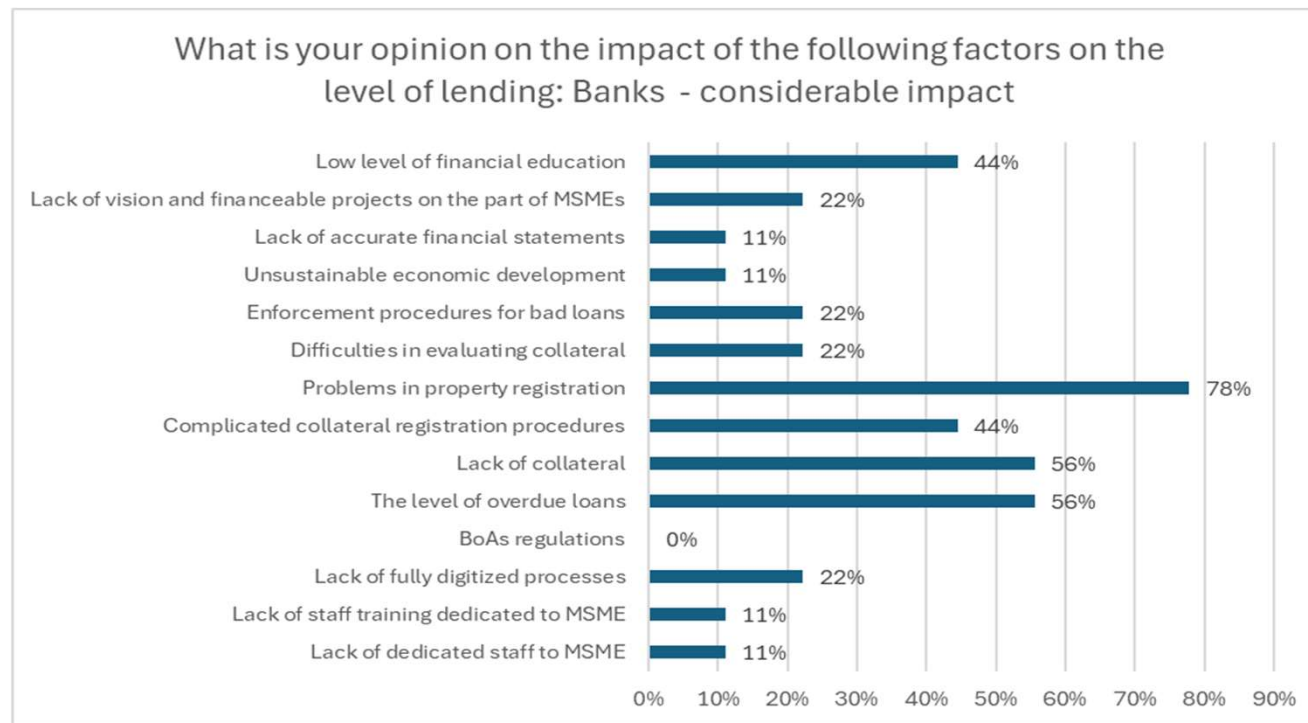
All nine banks surveyed report that micro, small and medium-sized enterprises are the primary focus of their activities and indicate an increase in lending to this sector over the past three years.

However, according to World Bank data, Albania still ranks last in the region for bank lending to businesses and for the number of businesses utilizing commercial banks as a source of financing



2.8 FINDINGS - WHAT HINDERS MSMEs LENDING?

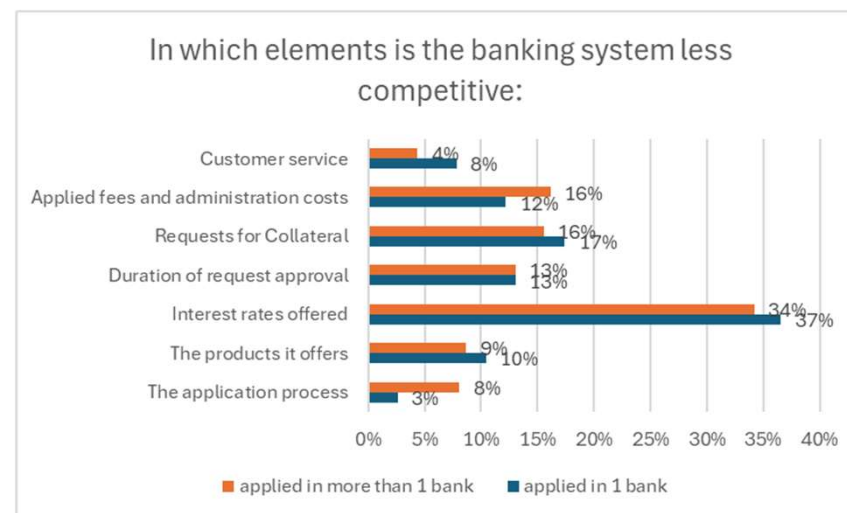
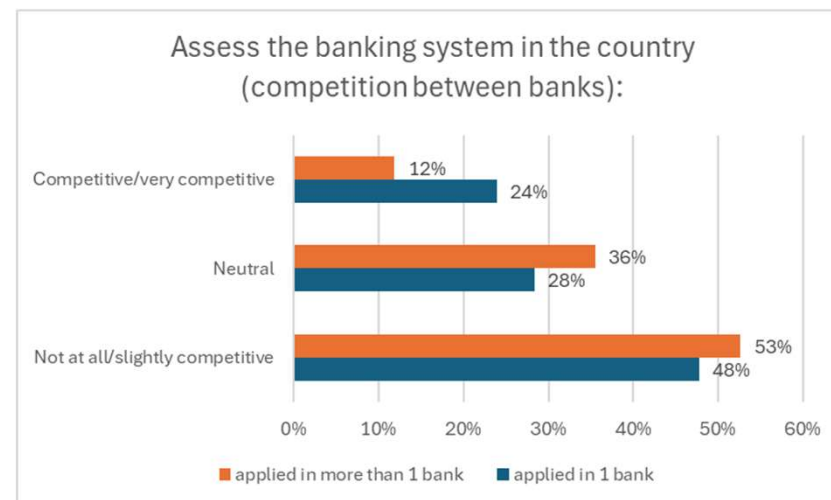
Banks identify several key factors that hinder the growth of lending to MSMEs, including issues with property registration, lack of collateral, high levels of delayed loans, double financial reporting figures, and inadequate financial education.



2.9 FINDINGS - ON THE COMPETITIVENESS OF THE BANKING SECTOR

Businesses do not perceive the banking sector in the country as competitive.

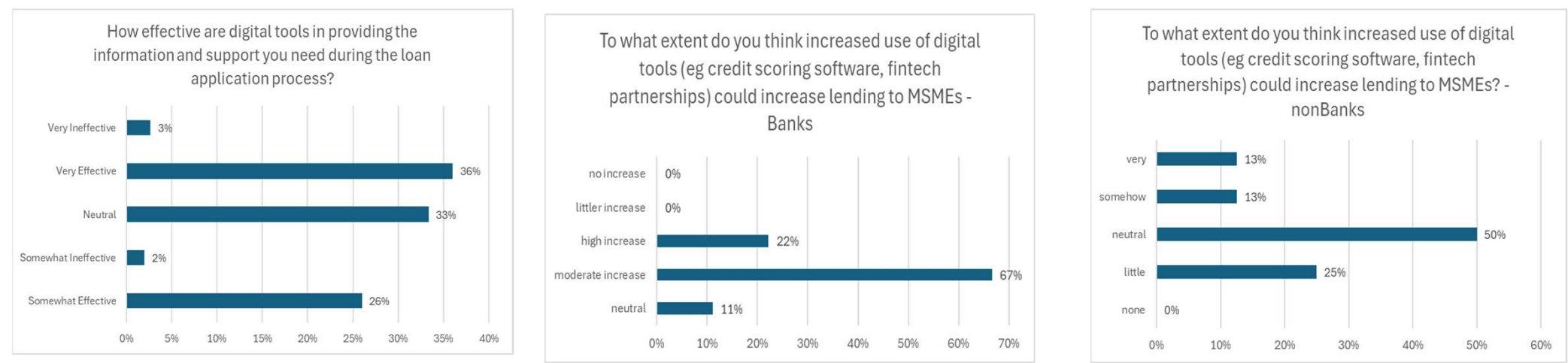
Among several criteria voted, most of companies perceive that level of **interest rates, collateral requirements, and administrative cost/ fees** are those that mostly impacts their level of competitiveness.



2.10 FINDINGS - DIGITALIZATION

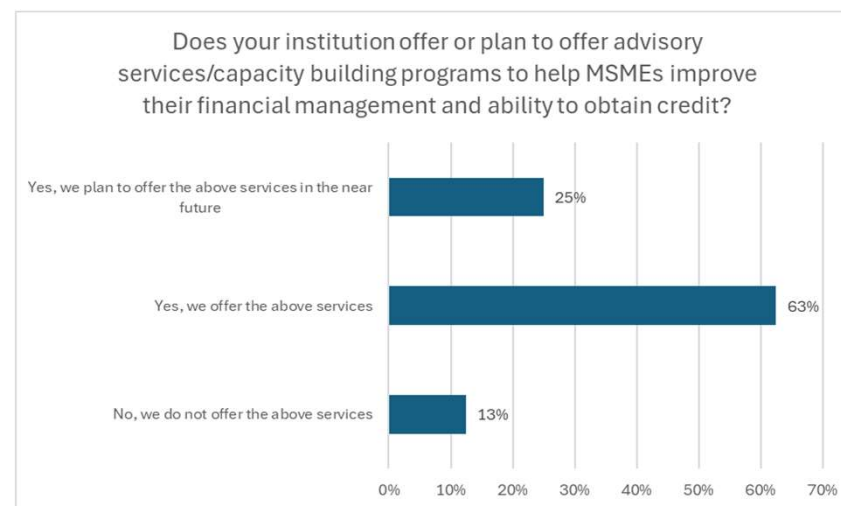
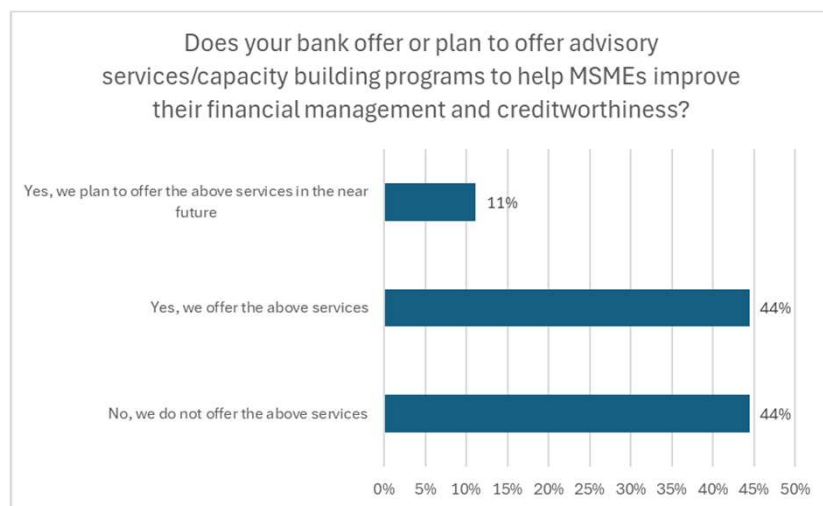
Impact of digitalization of lending process, is perceived differently by key actors although digitalization is widely embraced by businesses, with 8 out of 10 companies (81%) reporting the use of digital banking services, as easy/very easy to use.

There is a notable gap between businesses' expectations and financial institutions' views on the potential impact of digitalization in lending. **While companies see it as a key factor in improving efficiency, many banks remain cautious, indicating a need for greater alignment between business needs and financial institutions' digital strategies.**



2.11 FINDINGS - FINANCIAL ADVISORY SERVICES

Both banks and non-bank institutions acknowledge the value of advisory services in supporting businesses. However, businesses still report limited awareness of the information required to access credit. Despite financial institutions' recognition of advisory services' importance, many companies continue to face challenges in securing credit due to gaps in financial knowledge and limited awareness of available products in the banking sector.

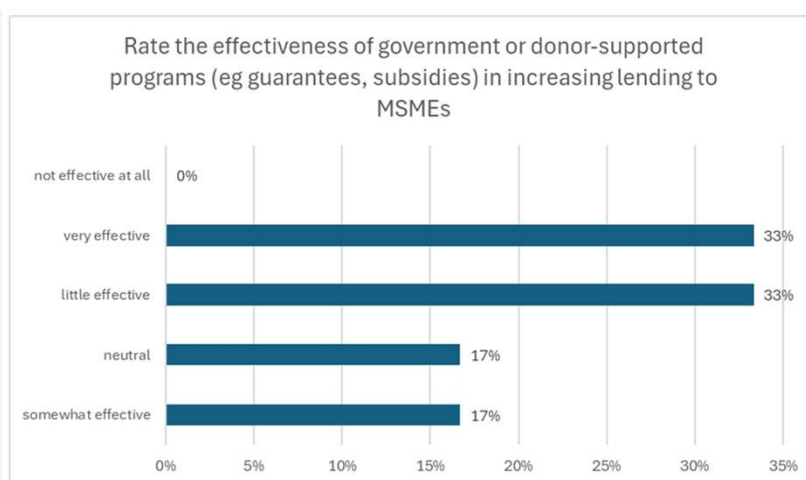
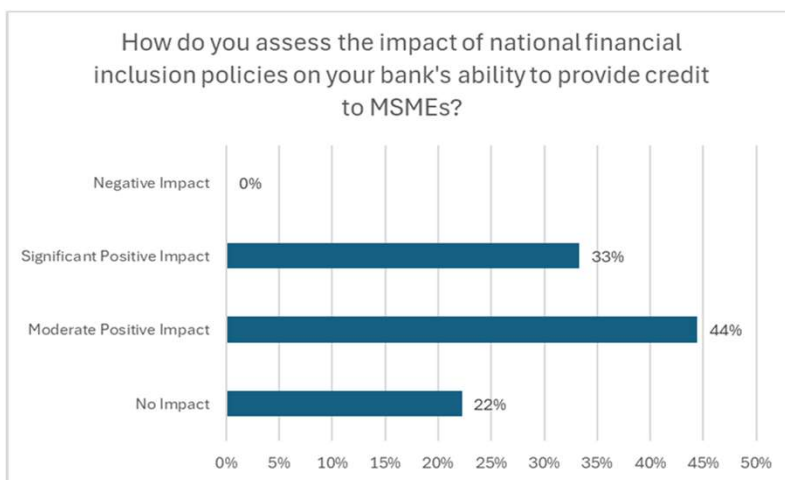


2.12 FINDINGS - RISK-SHARING SCHEMES

In general, most banks recognize the positive influence of national policies and guarantee schemes on business credit growth, particularly for MSMEs.

During consultations with business, we evidenced limited business awareness on risk sharing credit guarantee schemes offered by partners for development. The business community, particularly women entrepreneurs, voiced concerns regarding institutional transparency and support on this risk sharing schemes.

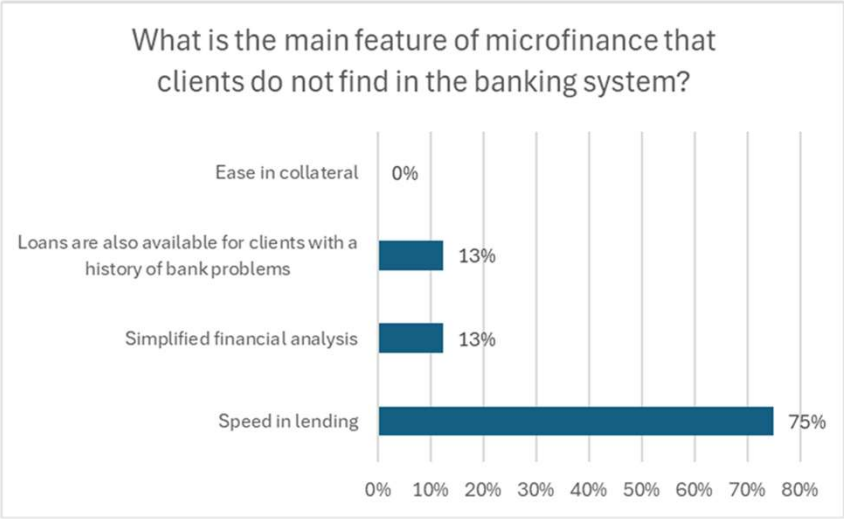
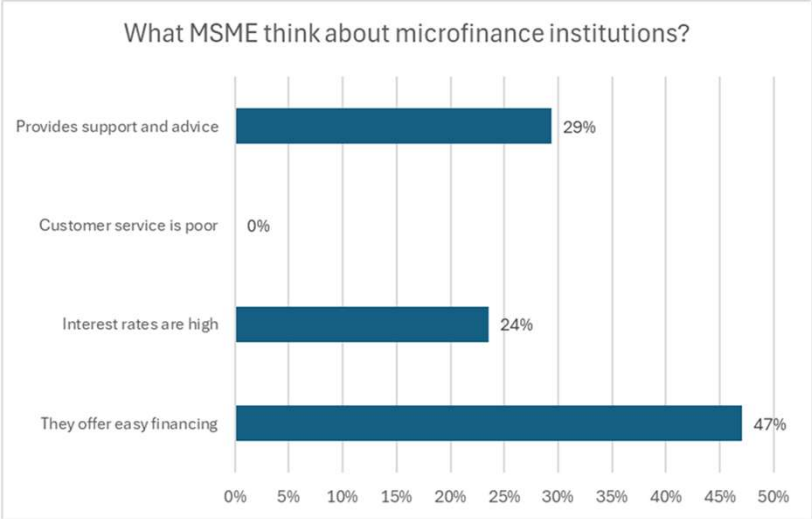
While it is true that both businesses and banks require more credit and risk mitigation mechanisms, the promotion and utilization of the Sovereign Guarantees launched so far has been relatively low, 0.8% to 18.8% (apart from COVID19 schemes).



2.13 FINDINGS - BUSINESS ON ACCESS TO MICROFINANCING

Microfinance is viewed by businesses (mainly MSMEs) a viable alternative to the rigid and excessive requirements imposed by banks for lending.

In spite of their high interest rates, the ease and speed in securing funds are still the most valued aspects of non-bank institutions.





3. RECOMMENDATIONS

3.1 RECOMMENDATIONS

Recommendation 1: Harmonize MSME's definitions and Data Collection for enabling a Better Policy and tailored Product Development.

- Albania faces challenges in accessing detailed data on specific lending purposes and the sectors/subsectors financed, gender-specific products etc., which limits the ability to design effective policies and financial products. To address this, banking institutions, in collaboration with the Bank of Albania, INSTAT, and the government may consider establishing a standardized and unified data reporting framework. This would provide more granular insight into credit allocation, allowing for more informed policy decisions, improved risk management, and the creation of tailored products that better meet the needs of various industries, particularly MSMEs and emerging sectors.

3.2 RECOMMENDATIONS

Recommendation 2: Evaluate the effectiveness of Sovereign Guarantee Schemes implemented through private commercial banks, focusing on usage levels, bottlenecks, bureaucracy, operational issues, and overall impact.

- To assess the effectiveness of credit guarantee schemes in Albania, a clear framework for measuring their impact is needed. Key metrics may include loan volume, sectors served, repayment rates, and business growth outcomes. Collaboration between MF, MEKI, commercial banks and independent evaluators is crucial for gathering data and understanding results.

3.3 RECOMMENDATIONS

Recommendation 3: Consider expanding Guarantee Schemes to support the development of innovative financial products, including those aimed at digital initiatives and women's entrepreneurship.

nets—they're catalysts for unlocking credit, but they remain sceptic on their effectiveness. Embracing innovative risk-sharing models could set a new standard in financing. Some measures that government and donors' community can undertake are increasing usage of partial credit guarantee schemes; streamline and simplify the bureaucratic application processes, adjust coverage ratios, and raise awareness.

3.4 RECOMMENDATIONS

Recommendation 4: Accelerate digitalization efforts of banking services

- Fintech companies have increased in Albania and are trying to service the unbanked or underbanked in Albania (estimated from approximately 50%-60% of the population). Open banking principles and their implementation are expected to increase competition related to financial services at disposal to businesses and individuals and for more financing options. BoA to further streamline the actions for enhancing this competition and ensuring the adequate implementation.

3.5 RECOMMENDATIONS

Recommendation 5: Strengthen the reach and targeting of financial education programs, to make them more appealing and accessible for MSMEs

- Move beyond basic education by developing interactive, tech-enabled literacy programs that equip clients with practical tools for managing finances and understanding credit. To attract businesses to financial literacy training, emphasize practical benefits like better cash flow management and access to funding, use real-world examples, and offer incentives. Partner with business associations for promotion and provide flexible, sector-specific content to suit diverse needs.

3.6 RECOMMENDATIONS

Recommendation 6: To streamline and expedite the lending process, government institutions could consider granting the financial sector access to relevant governmental databases.

-upon prior approval by the prospected customers to determine on the status of collateral, further enhance the convergence with e-Albania services and expand the usage of e-signatures in operational transactions. Moreover, an agreement with State Cadastre Agency (ASHK) to have a “fast line” of service for the business client applicants in the financial sector, would reduce significantly the loan processing times.

3.7-8 RECOMMENDATIONS

Recommendation 7: Reevaluate the role of bank employees in providing financial advisement, as current practices indicate a gap in effectively guiding customers.

- Banks may consider elevate employee roles from mere loan intermediaries to financial advisors skilled in both consultative selling and financial coaching, particularly for SMEs and startups. Develop and train bank employees as financial advisors with consultative selling skills and the ability to provide financial coaching to clients.

Recommendation 8. Review Bureaucratic Procedures and Documentation

- Reduce bureaucratic barriers, streamline documentation, and ensure processes treat clients with dignity and respect, recognizing them as partners.

3.9 RECOMMENDATIONS

Recommendation 9: Complete the legal framework

- The market stands to benefit from a complete legal framework on crowdfunding and agricultural insurance, along with full implementation of Law 55/2020 on Payment Services, Law 62/2020 on Capital Markets, and Law 66/2020 on Financial Markets Based on Distributed Ledger Technology. These developments could significantly expand financing options for businesses.

3.10 RECOMMENDATIONS

Recommendation 10: The WB Action Plan on Access to Finance

- The World Bank's Action Plan on Access to Finance includes provisions for drafting and approving a dedicated law to establish a Credit Bureau, enabling a robust credit scoring and information-sharing mechanism. The Investment Council (IC) supports the development of this draft law and emphasizes the importance of thorough public consultation with interest groups, particularly businesses. To support this, the IC platform, in collaboration with stakeholders, can facilitate the consultation phases of the law, increasing the level of transparency and accountability in this critical legal initiative.

THANK YOU!

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