

## **AGRIBUSINESS LENDING AS A REAL OPPORTUNITY FOR RURAL DEVELOPMENT IN ALBANIA**

**Msc. Irena Boboli**

“Eqrem Çabej” University, Economic Department, Gjirokastra, Albania  
E-mail: irena\_boboli@yahoo.com

**Msc. Zamira Veizi**

“Eqrem Çabej” University, Economic Department, Gjirokastra, Albania  
E-mail: veizizamira@yahoo.com

**Doc. Msc. Drita Kllapi**

“Eqrem Çabej” University, Economic Department, Gjirokastra, Albania  
E-mail: drita\_kllapi@yahoo.com

**Prof. Ass. Dr. Sahit Surdulli**

College of International Management “GLOBUS”, Kosovo  
E-mail: sahit.surdulli@rks-gov.net

**Abstract** *The global economy is undergoing a major fluctuation in its sustainability. The effects of this crisis directly and indirectly, affecting the economy of our country. In these conditions should concentrate mostly on those sectors that have greater development potential and are more stable and favorable for the conditions that our country offers as a Mediterranean country. One of the most important economic sectors that have direct impact on economic growth and development of the country is Agribusiness.*

*This section shows that matter and further development potential in line with technological growth and conform to European standards for this sector. The aim of this paper is to reflect the priorities and challenges of our country in this sector and the current level of business and it's financing from the banking-sector.*

*What are the factors that have retarded financing of this sector? Do banks have the necessary potential for successful penetration in this sector? The analyze made in this paper shows that the challenges facing the agribusiness sector are high, but the same time must exist desire and expertise to draw from them the best opportunities and put them in the context of rural development of the country. In the end we summarize some conclusions and will make some suggestions to increase co-trilateral “Bank- Agribusiness –State”.*

**Keywords:** *Agribusiness, rural development, banking system, challenges*

### **1. Introduction**

The agribusiness sector is undoubtedly one of the most important sectors of the Albanian economy. During the last years this sector had a significant increase in investments as a necessity to increase competition in a global market conditions. Albania already received the status of EU candidate country and local businesses have to adapt for their expanding to the regional and European markets, even more manufacturing and processing businesses that have potential for exploitation. The

development of an agro-processing industry will be essential for rural development. Without this industry, agriculture will be limited primarily in terms of meeting the domestic demand for fresh products and manufacturing advantages for high-quality products and intensive work would not be put in use. In the future it must be created an environment that encourages the development of this industry, but also others as well.<sup>i</sup>

A modern and competitive industry will be the key to further development of agriculture and rural fields. It will provide a space for agricultural products, allowing farmers to attempt and change the production from family consumption in producing for the market, in terms more or less known and safe. It will provide further employment opportunities, and will help to prevent excessive departures from rural areas.<sup>ii</sup>

A special support in the development and strengthening of agribusiness sector must have the state institutions and the banking system. In recent years, there has been an increase in the agribusiness sector, but still it remains a sector with low attention by lending institutions. Despite high growth potential in the future and stability that has showed during the years of crisis, it still remains a high risk sector. The banking sector has offered very little in this sector, because it is seen as a challenge that carries a high risk itself.

The development of agribusiness is one of the priorities of the Albanian Government. Moreover, the status of EU candidate country will bring to our country substantial funds for the development of agriculture and agribusiness and even more in our country's economic growth.

Albanian economy should be oriented towards new sectors in the near future. The Bank of Albania sees agriculture sector as well as the whole activity of agribusiness as one of the main sectors that should be at the top of this reorientation.<sup>iii</sup> To develop this, it will be needed a close co-ordination between several important factors such as: agribusiness, government and relevant organizations, firms and consulting experts as well as financial intermediaries.

## **2. The Current State of Agribusiness**

Albania has a total land area of 28'748 square kilometers, where the 24% is agricultural land, 36% are forests, 18% pasture. It has a geographical position and a

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<sup>i</sup>Rural Development Strategy for Albania – Economic Growth Support and Sustainable Development, 2002, pg. 13

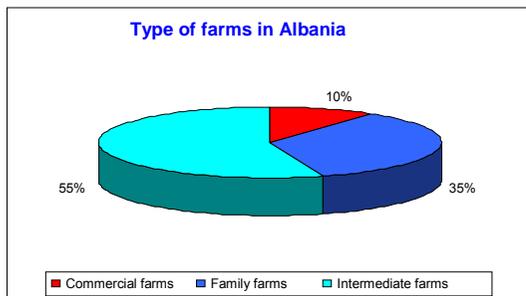
<sup>ii</sup>Rural Development Strategy for Albania – Economic Growth Support for Sustainable Development, 2002, pg. 89

<sup>iii</sup>The speech of the Governor of the Bank of Albania, Mr. Ardian Fullani in a meeting with representatives of agribusiness and banking sector, March 2014

favourable climate as a Mediterranean country. The above distribution shows all the potentials and perspective for agricultural and agribusiness development.

Besides the natural potentials, Albania has advantages to develop its agriculture: a) the favorable geographical position compared to the EU countries, particularly with Italy and Greece, b) comparatively low level of wages, c) relatively educated rural population, the majority of which has worked in other European countries for certain periods of times, d) the ability of the Albanian farmers to adapt to the changed circumstances e) fertile land and favorable climate in some areas. Based on these advantages, the best opportunities in the agricultural sector would exist in the production of crops that are sold at favorable prices, farming, processing and some favorable agricultural markets.<sup>iv</sup>

The production of agricultural and livestock products is distributed in most of the family farms. Below is a breakdown of the types of farms based on the report created between the farm and workforce:



*Source: INSTAT*

Agriculture is the third economic sector, after the service and commerce sectors, in the gross domestic product in Albania. This position is very important, while having in mind the low attention that was provided to this sector from investments, organization and enterprises.

In addition, even though domestic products are more accepted in the market, this sector faces problems with regards to the promotion and marketing of these products. Distribution channels of agricultural products are in a very low level and the marketing of these products is difficult. This is not just because of the inappropriate infrastructure in rural areas, but also due to lack of collection points, distribution and post - processing. Albanian agribusiness sector has many problems which are related to customer satisfaction for food products, the improvement of import-export balance, the increase the competitiveness of domestic products in national and international markets. Even though domestic products are the preferred for their quality and value, as they are BIO, they still remain in the context of “sale difficulty” due to the lack of distribution from the manufacturer to the consumer.

<sup>iv</sup> Albania’s Rural Strategy – Economic Growth Support for Sustainable Development, pg. 13 - 14

According to Albania's Progress Report 2013 by European Commission, the advancement of agriculture and rural development is limited. Agricultural production had a slight increase. The country's exports had an increase and the trade balance was slightly improved. The government allocated 6.8 million euro in 2013 for direct support and national investment schemes in agriculture and agro-processing. With regards to organic agriculture, subsidies are provided through direct schemes and training on organic production, but still there isn't any law on organic agriculture. Furthermore, with the scope of aligning with the *acquis* it must be accompanied by an awareness and information campaign for agri – food operators.<sup>v</sup>

**Table 1** reflects the change in the number of agribusinesses in our country over the years. It is noticed a gradual increase in the number of these businesses until 2011. Whereas in 2012 there is a decrease in the number of businesses, 212 units or 9.32% less businesses than a year ago, as a consequence of the economic and financial crisis.

Table 1

Years	2000	2005	2009	2010	2011	2012
Numberof agribusinesses	1844	2060	2081	2156	2273	2061

*Source: Ministry of Agribusiness and Rural Development*

A general overview of Albania agribusiness reveals that it is still divided and with a low level productivity compared to European countries. In addition to the rapid development, the overall production does not adapt with the domestic consumption, which is completed by significant amounts of imported food products.

**Table 2** and **Figure 1** gives data in value on import – export for agro – industry for the period 2011 – 2013 where there has been an increase in the level of imports and exports. Thus, in 2013 there has been an increase of 23.7% for exports and 2.4% for imports, in value, compared to 2012

Table 2 Value 000/ALL

Year	2011	2012	2013
Import	52433278	53919480	55216034
Export	6647988	6419593	7946365

*Source: Ministry of Agribusiness and Rural Development*

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<sup>v</sup>European Commission (October 2013) – Albania 2013 progress report: “Enlargement Strategy and main Challenges, period 2013-2014”. ( Communication from the Commission of the European Parliament and the Council)



Figure 1

The implementation of Free Trade Agreement with the Balkan countries, has made it possible for local products to be exposed to imported products. But our neighboring countries have more experience in this sector, not only in the diversity of products but also in marketing strategies, in pricing policies and sometimes using “dumping prices”.

We should also mention the dependence of processing industry on imported raw materials, which together with customs duties and transportation costs make Albanian products have a higher production cost and less competitive prices.

Albania, compared to other countries in the region, has several disadvantages. The existence of small farms versus enterprises with high production capacity, together with outdated technologies, make it difficult to benefit from economies of scale and as a result higher production costs. The businesses of the neighboring countries are developed much earlier in the free market economy than the Albanian businesses, a fact which gives them greater competitive opportunities to improve the marketing of their products and greater opportunities to diversify products. It is important to note here the use of low-cost inputs, while our country often imports raw materials.

Currently 47% of the local population and about 49% of the active labor force still lives in rural areas and is active in agricultural activities. From the latest data of 2012 about 24% of the country's land surface is used for the cultivation of various agricultural crops. But, despite the numerous resources that are concentrated in agriculture and the important role that it plays as the main source of income for a large part of the population, only 20% of the gross added value comes from this sector. The low share in the economy related to the large number of the population involved, is an indicative of the low productivity of this sector. The latest data shows that the exports of products "food, tobacco, beverages" constitutes 6.2% of total exports, where farming and agricultural products constitute 0.78% and 2.3% of total exports, while agricultural industry constitutes 3% of the total exports.<sup>vi</sup>

<sup>vi</sup>The speech of the Governor of the Bank of Albania, Mr. Ardian Fullani in a meeting with representatives of agribusiness and banking sector, March 2014

### **3. Challenges for Agribusiness Lending**

The agribusiness sector occupies an important place in the Albanian economy. However, even though its specificity and contribution, this sector is facing difficulties and challenges. The main problem is the connection with land ownership. The fact that the majority of Albanian farmers are operating in lands with medium sized parcels of 1.2 hectares, and in most cases the land as natural resource plays leading asset, derives numerous problems like unavailability of economies of scale with the aim of reducing the cost per unit of business, purchase of inputs, development of new technologies, the lack of real business plans. In addition, the lack of property titles influences adversely in the investment's increase of this sector, as a consequence they cannot be treated as a guarantee for banks. Other equally important problem is the danger that characterizes this sector due to the characteristics of agricultural production, seasonality, weather conditions, lack of a secure market for the sale of products. We should also mention the leadership factor, entrepreneurship and management, that meet the proper functioning of factors and the fact that the connection farmers – banks is almost nonexistent.

These problems make the lending to the agribusiness sector, from the perspective of financial institutions, to be translated as a high risk, since these institutions require security, information on business performance, investment plans etc. Thus, the banking sectors carry risks in providing new loans, especially in conditions where bad loans reaches 23.9% for May 2014<sup>vii</sup>. This has led the agribusiness sector to be the less funded.

From the perspective of farmers and agribusiness, it does exist some difficulties such as refusal of loans, limited availability, informality, etc. Moreover as Albania is a country with an emphasized mediation transition of financial institutions, the banking services are at a lower level.

All the above carry risks for the banking sector and this has led the agribusiness sector to be under-funded. Taking into consideration the actual framework of the economic situation and lingering effects of the recent economic and financial global crisis, also the maturity of some sectors of the economy, one of the few areas where long-term benefits are identified, despite the costs and risks is precisely agriculture and agribusiness. Now the time has come that the banks assess and treat agricultural credit beyond the practice of short-term benefits.<sup>viii</sup>

### **4. Agribusiness and Lending**

As mentioned above, agriculture and agribusiness development is now a priority. Agriculture is one of the most important sectors and the main pillar for sustainable

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<sup>vii</sup> Albanian Association of Banks, Statistics

<sup>viii</sup> Meka. E, Agriculture – The next challenge, The Banker vol. nr. 11, April 2014, pg. 5

rural development, and aim to reduce unemployment, develop the economy, reduce the prices of basic consumer products as well as reduce the level of imports.

Faced the contraction of country's traditional economic sectors such as construction, the service sector and the growing trend to go toward the agricultural production and agro-processing, as a stable and long – term alternative case for growth prospects, has led the Albanian banking sector, which is generally characterized by excess liquidity, to see seriously the increase of lending portfolio for agriculture.<sup>ix</sup>

But in order to develop this important sector there is need for more funding which will help to increase its competitiveness, the development of agro-processing industry, certification of products for export, etc.. So, necessity for funding is necessary. In this context, we see an increasingly attempt to increase the funding of projects either from public funds or from financial institutions of various non-for profit organization. Also the EU candidate country status will bring benefits for substantial funds for the development of agriculture and agribusiness and will assist even more in the economic growth of our country.

In **table 3** there is information about the costs of the state budget through the years where it is noticed an increase in expenses on rural development in support of agriculture, livestock, agricultural industry and marketing in relation to the total budget from 0.659% in 2011 to 1.014% in 2014.

*Table 3 ( in 000/ ALL)*

<b>Year</b>	<b>Rural Develop. Agrind, Market I</b>	<b>Total budget II</b>	<b>Ratio I/II</b>
<b>2011</b>	1636241	248277302	0.6590
<b>2012</b>	1690423	241934051	0.6987
<b>2013</b>	2572600	258129356	0.9966
<b>2014</b>	2688944	265126657	1.0142

*Source: Ministry of Finance*

The credit needs for this sector are covered by the second tier banks as well as savings and credit associations that are in the agricultural market.

Also, the lending of agricultural sector is covered by the Agency for Agricultural and Rural Development created in 2008. The mission of this agency is the agricultural and rural development in Albania by supporting entrepreneurs in the food sector, preparing the institution to benefit from projects funded by the EU, as well as restructuring, modernization and specialization in specific products and markets based on competitive advantages of the country. This agency's vision is the absorption of EU funds.

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<sup>ix</sup> Prof. Dr. Edmond Panariti, Minister of Agriculture and Rural Development, Agriculture credit as an instrument of development, growth and formalization, the Banker, Vol. nr. 11, April 2014, pg.9

Following the EU-IPA 2011 project "Support for Agriculture and Rural Development '(SARD) in March 2014, it was released a guidelines for applicants that sets the rules for the submission, selection and implementation of investment projects, according to two measures "Investments in agricultural farms" and "Investment in processing and marketing of agricultural products", within the Grant Scheme "IPARD-like"for the Development of Agri Food Sector in Albania. The project duration is from 07/2012 to 04/2015.

The preliminary general budget of Grant Scheme is in total 8,270 million euros, of which 6.200 million is the community contribution and 2.070 Million Euro the national contribution. Distribution of funds will be 62% for the first measure and 38% for the second.

Also to facilitate the financing possibility, USAID launched a cooperation program with CBS (Creative Business Solutions) with a funding of 1.49 million dollars for the implementation of the AGRO CAPITAL program that facilitates the financing of agribusiness.

In table 4 are presented data for the period 2009 - 2014 regarding lending to the agriculture, hunting & forestry sector and data on total loans to business. Generally the ratio of lending to this sector to total loans to business has seen a modest increase these years, but note that compared with 2013 in May 2014 this ratio was reduced slightly with 0.04%. Also see from the data that this report has had a slight decline in 2012 compared with 2011 with 0.03%. Other years has increased modestly. We see that lending to this sector of the economy in absolute value has been increasing during this period.

Table 4 Lending in accordance with economic activity

Years	Agriculture, hunting & forestry I	Total loans to business II	Ratio
			I/II
2009	3060,1	291214,3	1,05
2010	3982,6	330388,1	1,2
2011	5586,3	389425,7	1,43
2012	5655,4	401699,1	1,4
2013	6201,7	394660,3	1,57
May 2014	5974,4	389536,5	1,53

Source: Bank of Albania in millions ALL

## 5. Conclusions and Recommendations

The agribusiness sector is undoubtedly one of the most important sectors of the Albanian economy. Albania already received the status of EU candidate country and local businesses have to adapt for their expanding to the regional and European markets, even more manufacturing and processing businesses that have potential for exploitation. The development of an agro-processing industry will be essential for

rural development. But despite its specificity and contribution, this sector is facing difficulties and challenges.

The agribusiness suffers from very small sizes of the average land tenure, lack of infrastructure and knowledge skills, high informality, inefficient production of agribusiness goods, limited rights of ownership, low standards of quality and limited investment. On the other hand this vital sector for the economy of the country is in need of funding in order to be able to respond to changes. Despite risk bearing financing from financial institutions, the time has come that the lending of this sector should be evaluated and treated beyond the practice of short-term benefits.

The analysis made in this paper show that the challenges that the agribusiness sector is facing are large, but at the same time it should exist the desire and expertise to draw from them the best opportunities and put them in the function of country's economic development. Building a correct relationship between the different sectors will promote a long-term and sustainable development of the country. For this we recommend:

- Raising the level of awareness about the potential of agribusiness
- The increase of standards for manufactured products and their certification will help to increase the bank funding's related to the product's quality
- The increased engagement of public and private sector for investment in this sector with the support of public and private investment schemes in the manufacturing process as well as in the capacity building process of collecting and processing.
- The preparation of credible business plans will create opportunities to benefit from EU subsidy funds such as IPARD-like.
- Improvement of agribusiness structures in order to increase competitiveness and development for much more access to information about the market, new technologies, funding opportunities etc.
- Development of local and regional projects to create opportunities for agribusiness community.
- Financial institutions should develop appropriate products for the specifics of agribusiness sector.
- The acceleration of the application procedures in the granting of loans.
- Lending to safe clients.
- To improve technical knowledge for a better management of portfolio risk.

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