

## EXECUTIVE SUMMARY

The agriculture sector is of crucial importance with regard to socio-economic development in Albania. It contributes to about 18.9% of the country's GDP (in 2019) and accounts for 36.4% of the overall employment. The overall agriculture production has increased with an average of 5% during 2010-2019 and the exports of the sector in 2019 represented 11.8 % of the country's total exports, showing a significant increase as compared to only 8.7% in 2015. The contribution of agriculture to the gross value added of the economy has been steady across years with an average of 22% for the period 2015-2018. *The sector had also a positive contribution to the country's export during January – June 2020, in spite of the 26<sup>th</sup> November 2019's earthquake and the negative impact of COVID-19 in the Albanian economy since March 2020.* Albanian fruits, vegetables, and MAPs have been gaining ground in the Western Balkans and are considered as well-positioned to make headway in high-value international markets.

The study aims to review the potentials for investment in the selected sub-sectors (nuts, tomatoes, juice fruits, and MAPs), including main business challenges and support needs. The methodology of the study is based on the use of qualitative and quantitative data from the secondary and primary sources. The study is designed to serve as a tool to help executives in their decision-making rather than a thorough sectorial or value chain research study per se. The following are the main findings of the study.

***Agro-processing<sup>1</sup> industry is considered<sup>2</sup> as having good potentials for investment, especially the vegetables, fruits and MAPs value chains.*** Among the selected products, chestnuts, tomatoes, and MAPs are considered as the three top products having the most potential for agro-processing. Companies demonstrate<sup>3</sup> a generally high trust in the potential of the agro-processing sector and are willing to invest in the expansion of processing capacities. Most of the exporting companies and supermarkets confirmed their willingness to increase the domestic procurements if local suppliers could ensure higher quantities at required standards and competitive prices. The key problems encountered in relation to the “Supply of raw materials in the country” are high cost, lack of liquidity, standard & quality, fragmentation, and lack of cooperation. While in relation to “Product processing & marketing”, informality in the domestic market. As relates to “Business management”, key problems relate to finding specialized employees and access to finance. In addition, the lack of property certificates and the high uncertainty related to land ownership has also prevented companies from investing and expanding. It represents an important impediment when applying for IPARD grants, bank loans, and permits.

***The overall access to finance score in Albania has only marginally improved in recent years and there is yet limited availability of appropriate, affordable, and timely credit products to finance, especially for SMEs and small-scale actors along the agriculture value chains.*** While the appropriateness of loan maturity has improved in recent years, companies declare to be significantly unsatisfied with the warranties/collateral requirements as well as with the loan processing and approval time. There is a decreasing trend of lending from the private banking sector for the periods 2017-2020 and a decreasing trend for the geographical presence from the commercial banks in terms of number of Banks: about 5 % decrease in lending to the companies operating in the agriculture sector; and 22 % decrease in lending for the companies in the processing industry. Also, agricultural insurance schemes are yet underdeveloped as a financial tool to minimize the adverse effects of agricultural risks, which could support increased access to bank financing.

***Fruit and vegetable companies have benefited the most from grant support schemes.*** As regards the grant schemes, from both IPARD calls benefited only 15% of the applicants in the agro-processing sector. Regarding the ARDA grant schemes, the biggest number and amount (32%) is awarded to the companies operating in the fruits and vegetable sector, followed by livestock and aquaculture (23%), MAPs (9%), fruits

<sup>1</sup> Agro processing is defined as a set of techno-economic activities, applied to all the produces, originating from agricultural farm, livestock, aquaculture sources and forests for their conservation, handling and value-addition to make them usable as food, feed, fiber, fuel or industrial raw materials

<sup>2</sup> by 37 out of 42 interviewed companies

<sup>3</sup> With the majority of interviewed companies having made significant investments in the last two years and declaring to have plans for new investments in the next two years

juice and wine (2%), and only about 1% to the nuts sub-sector. A similar trend is noticed also in the support from three of the Credit Guarantee Schemes available for Agro-business.

**The legal, administrative, and institutional aspects have improved in recent years.** Compared to other pillars, these aspects of doing business (including VAT reimbursement), have not been emphasized by the businesses during the interviews as major impediments for the sector. However, some problems still remain: access to information for obtaining a certificate and training; scanning at customs has increased costs; there are no accredited laboratories - IFSV analyzes are not suitable for export to many countries (especially in the EU); National Food Authority needs improvement in procedures and documentation; the banking system operates at high interest rates for agriculture compared to the region; non-functioning of agriculture cooperation/associations; problems with the phytosanitary certificate for exports from Kosovo and Serbia (transit), issues related with differentiated VAT rates (6% in the purchase of locally produced raw materials and 20% in sales of final processed products).

The following recommendations are the product of the analysis and consultation of AIC Secretariat with a number of stakeholders and experts both in the private and public sector:

### ***1.1. Cooperation, Value Chain Integration and Supply of Raw Materials***

- 1) **In order to incentivise improved farmers' cooperation within the four above mentioned key sub-sectors, it is recommended to introduce incentives and support schemes targeted to the four sub-sectors, such as:**
  - ✓ Reduce administrative procedures and introduce administrative incentives for land registration and construction permits for members of cooperative/farmers' organizations; obviously special respect to private property rights.
  - ✓ Introduce fiscal incentives for the farmers' cooperative (i.e. lower local/property taxes, etc.);
  - ✓ introduce credit support schemes (i.e. guarantee schemes and preferential banking interest rates for loans application by the farmer organisations/cooperatives);
- 2) **Incentivising/stimulating the increased value chain integration and supply of raw materials for Agro-processing in the four selected specific sub-sectors, through:**
  - ✓ **Contract farming and large-scale production:** (i) introduce new support schemes (by ARDA) for stimulation contract farming, especially in MAPs and tomato production destined for processing industry; (ii) increase government insurance schemes on contracted large-scale production of MAPs, fruit trees (especially citrus) and tomatoes destined for the processing industry.
  - ✓ **Medicinal plants** sector: Introduce incentives (administrative/procedures, favourable renting tariffs) for renting of public land (from MoARD and local government) for the cultivation of medicinal plants destined for the production of essences (especially for products such as laurel, helichrysum, black juniper, etc.). Besides the high demand for exports of essential oils, it should be also an impetus for the use of these products in the Albanian pharmaceutical sector.
  - ✓ **Tomatoes** for the processing industry. Introduce support schemes (by ARDA, i.e. a fixed amount per hectare or per ton delivered at the factory) incentivising cultivation of open field tomatoes destined for the processing industry, using the right varieties/cultivars that are suitable for the sauce production. This is also seen as a better orientation for farmers to diversify farm production in the open field and increase the land-use efficiency.
  - ✓ **Nuts:** (a) Introduction of support schemes (by ARDA) for rehabilitation of the existing chestnut forests as well as in their protection against diseases which cannot be done by individual farmers alone; (b) increase the support for plantation new orchards of chestnuts and walnuts through: (i) introduction of incentives (administrative/procedures, favourable renting tariffs) for renting of public land (from MoARD and local government) for cultivation of chestnuts and walnuts; (ii) investments (support scheme by ARDA) in plantation of intensive chestnuts and walnuts orchards with selected/high quality cultivars (iii) investments (support scheme by ARDA) in upgrading of nurseries to in order to produce high quality planting

material for varieties demanded on the export market is an absolute must for Albanian produce entering the export market; (iv) credit support schemes (i.e. guarantee schemes and preferential banking interest rates) for investments in plantation of chestnuts and walnuts, which would enter into production about 4 years after plantation.

- ✓ **Citrus** sector. Increase grant schemes (by ARDA) and credit support schemes (i.e. guarantee schemes and preferential banking interest rates) for investments in the plantation of new orchards, especially with citrus to meet the demand of the national consumption and the need of the processing industry.

## **1.2. Market Information**

- 3) Create a Market Intelligence Unit (possible within AIDA, ARDA or other institutions, such as Agro University) to secure the updated information on current domestic and external market needs in terms of products in fresh use or in the processing industry.
- 4) In collaboration with Local Self Government Units, Business Associations, Export Association, Agricultural University, etc., organize meetings/practical training informing farmers on the prospective situation on:
  - agricultural and processing trends of investment potentials in light of market demand for export;
  - what products are desired by the international market, for fresh use or in the processing industry aiming to timely update to the current production of the same kind on a large scale.

## **1.3. Quality and Competitiveness**

- 5) **Support the creation of an enabling environment for the development of Albanian exports to EU and other higher-value markets with the following cross-cutting measures:**
  - ✓ Enable the acceptance of the mutual phytosanitary certificate for exports of agriculture products to/from all Western Balkan countries, as it was recently achieved with North Macedonia. Implementation into the practice of regional cooperation new synergies for new unexplored potentials for the region with free circulation of goods, employers and capitals, and removal of most of the non-tariff barriers. To this end, it is required practical implementation and enforcement of engagement and procedures agreed by the CEFTAs countries via decision in February 2020.
  - ✓ Speed up the modernization and accreditation of existing and new testing laboratories (ISUV analyses are not suitable for export to many countries - especially in the EU), enabling these to issue export certification recognizable in the EU markets is also a matter of importance. This is especially important for the vegetable, fruits, and MAPS value chains since they constitute major exports.
  - ✓ Sustain integrated promotions policies that enable a consolidated and transparent calendar of international fairs which could potentially ensure dignified participation and access to new contracts and markets.
  - ✓ Invest in promotion of Albanian products in the international markets, through organization of systemic and dignified participation in international fairs, high-quality promotion campaigns as well as increased involvement of our Embassies in the “economic diplomacy” by promoting the “Made in Albania” and facilitation of linkages between Albanian and foreign companies.
- 6) **Enhance product quality and standards in compliance with the best practices**
  - ✓ As for the organic certification, support investments leading to product quality and standardization through support schemes for Global G.A.P., Organic, Bio certifications for vegetables, fruits and MAPs, Fair Wild for MAPs;
  - ✓ Enforcement of the control over the quality and use of agricultural inputs (pesticides, herbicides, and fertilizers) as they directly affect the quality/standards of the final product.

- 7) Explore possibilities to incentivize investors in factories for the production of glass packaging within the country.
- 8) Consider the prioritizing of the most important subsectors in the processing industry focusing on minimizing the trade deficit, with the aim of penetrating the international market. Diversification of supporting grant schemes and the banking products as well, in terms of Agriculture subsectors.
  - ✓ **Fruit processing.** The juice processing industry requires investments in modern lines (juice pasteurization and Tetra pack packaging) for fruit processing. This industry must enable the production of fruit concentrates for export. This industry will also include the processing of forest fruits (blueberries, aronia berry, raspberries, etc.) where the demand is increasing.
  - ✓ **Tomato processing.** It requires increased investment in up-to-date processing technologies necessary for the production of various forms of tomato sauces as required in the world market. Meanwhile, the development of this sub-sector will meet the demand of the domestic market by significantly reducing the large volumes of imports.
  - ✓ **Chestnut processing.** Chestnut processing processes are seen as a necessity for increasing the value of this product. Investments in the process of complete processing of chestnuts, i.e. complete drying and stripping, as well as the processing of flour for the confectionery industry, are the immediate needs in this sector.
  - ✓ **MAPs processing.** Despite achievements, there is still an opportunity to increase the volume of processed products, i.e. processing of some medicinal plants required by the pharmaceutical industry, i.e. the production of essences. This requires investments in the modern distilleries for the production of essences. The production of essences will be a good opportunity for the development of the Albanian pharmaceutical industry.

#### 1.4. *Business Management, Operations, and Education*

- 9) Development of investment profiles (in annex) and technological cards in Agro-processing in order to facilitate investment decisions and operations. In the annex, are provided the examples of technological cards corresponding to the four identified products which could be used as a benchmark for potential investment in the sector.
- 10) Invest in the reduction of skills mismatch – through agriculture vocational education, professional training, and lifelong learning programs for agribusiness' skilled employees and professional personnel. This could be part of an integrated approach tailored to the sector supported by the Government towards the domestic production, which could then generate more focus from universities in preparing improvement of the standard curricula on agro-processing and introduction of the dual system as a mean to prepare ongoing specialists for the whole sector.

#### 1.5. *Institutional and Legal Matters*

Although the improvements in the legislation have been essential, further improvements are required for the completion of the legal framework for organic products and protected designations of origin, geographical indications and traditional specialties guaranteed, as well as on vineyards and wine, and ensure the institutional and administrative capacity for its implementation. More concretely the following milestones are expected to be achieved in the upcoming months that shall provide for more support to domestic products:

- 11) Amendment and alignment of the law no. 106/2016 "On organic production, labelling of biological products and their control" with the provisions of EU Regulation 2018/848 "On organic production" which enters into force is expected by January 1<sup>st</sup>, 2021.
- 12) Approval of the draft-law "On vineyards and wine" which has been subjected to notification and public consultation as of June 2020.

- 13) Increasing the capacities of NFA in the verification of compliance and control of products labelled with Designation of Origin, Geographical Indications, and Traditional Specialty Guaranteed.
- 14) Harmonisation of data on agro-processing between all reporting institutions, MoARD, INSTAT, GDC, NBC, BoA, Secondary-level Banks, etc. for better sector analyses and policy orientation.

#### **1.6. Access to Finance**

- 15) **Credit guarantee schemes usage has increased during the years, but it is still low due to the fact that they are not attractive in terms of costs even though they offer the risk-sharing facility with the banks and lower the collateral coverage to a certain level.** In addition to the recommendations specific to the four sub-sectors (given above in 1.1.), a simplification of procedures and reduction of these schemes' administrative costs, can increase their attractiveness and facilitate access to finance for a higher number of businesses.
- 16) **Creation of Insurance coverage schemes for agriculture business products by introducing the state as an intermediary.** From the region, for example<sup>4</sup>, North Macedonia's government today pays 60% of the insurance premium and 40% is paid by the farmer. In order to set up the Insurance Sector, the Ministry of Agriculture would consider to set up a database with data, risks for each agricultural sub-sector, table with data on time, rains, temperature fluctuations, etc ex through cooperation with signal prognosis station, and investments that manage risk in agriculture.

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<sup>4</sup> Insurance Supervision Agency (2015) "Agriculture Insurance In Macedonia"