

SUMMARY OF MINUTES OF MEETING

INVESTMENT COUNCIL (IC)

MEETING XXII

“Domestic Production and Stimulation of Investments in the Agro-processing”

Tirana, 10 November 2020, 15:00 – 17:00

The meeting was held in the form of a video conference and it was chaired by the Minister of Finance and Economy, Ms Anila Denaj (IC Chair). The meeting was attended by all 17 members of the IC (full participation) and around 30 observers - representatives of the local and foreign business associations and state institutions in Albania.

1. Opening of the Meeting by Minister Anila Denaj, IC Chair

At the opening of the meeting, Minister Anila Denaj thanked the participants and invited them to join the debate. Minister Denaj started with a brief overview of the current situation of the agro-processing sector. The coronavirus crisis has revealed the fragility of the modern supply chain. Recent data show the devastating economic impact on global trade. Diversification of supply sources and digitalization will be key to building stronger and smarter supply chains and ensuring a sustainable recovery for the country. This moment can also be used as a chance to transform/resize agriculture and maximize agro-processing potentials in the country. There is an urgent need to design a smarter and stronger supply chain — to withstand not only the pandemic but also what will follow. *To raise the expectations for the sector, we need to increase the sector's competitiveness, quality and effectiveness — some key elements to be discussed during this meeting.* The government has projected an ambitious economic growth of 5.5% for 2021, to converge with over 4% in the coming years. During 2020, the government has addressed several important elements, the most fundamental element being the alleviation of the fiscal burden for the small and medium businesses. Pursuant to the medium-term budget, starting from 2021, we will reduce the fiscal burden on oil for the farmers, exempting them from paying the excise/tax on turnover and carbon (a significant fiscal burden). Investment-related decisions depend to a considerable extent on fundamental factors, such as market size, proximity to the source country as well as the trade policies, prices and markets, trade costs, labour costs, and aggregation. *How can we address these challenges in the Albanian context?* The agricultural sector has increased its exports by 11.8% (2019), while during the past 5 years it has increased the value added by around 8.7% for products linked to international markets, mainly fruits and vegetables. The total value of the agro-processing sector has increased in the past 5 years by 8.4% (cumulatively) reaching ALL 70 million in 2019. The sector has also made a positive contribution to the country's exports during January-June 2020 (despite the situation caused by the earthquake and the pandemic). The digital future of the sector will increase the automation and the demand for a better workforce, improved investments in the technology, but above all, it will increase the pressure to overcome one of the main problems of the sector: fragmentation.

2. Presentation of the IC Secretariat on Key Findings and Recommendations

Ms Diana Leka, IC Secretariat, began the presentation with a brief description of the work carried out for the drafting of the technical analysis for this meeting. Apart from the desk-research work,

the analysis includes the findings of a questionnaire conducted with 42 agro-processing companies; data on access to finance for the sector provided by 8 second-tier banks; as well as 4 investment profiles and technology cards to be used as a reference for investment attraction. This study follows the work already initiated in the working group between MFE and MARD—set up to assess the investment potential in the agro-processing sector, especially from a business perspective. The study comes with 16 recommendations in total, tackling 6 aspects: i) *Cooperation & integration of the value chain and supply of raw materials*; ii) *Information on the market*; iii) *Quality and Competitiveness*; iv) *Business management, operations and education*; v) *Institutional and Legal Matters*; vi) *Access to Finance*. In conclusion, Ms Leka thanked all the actors (business associations, Bank of Albania, commercial banks, etc.) who contributed with comments and suggestions.

3. Summary of Key Comments

Mr Nikolin Jaka, CCI TR, thanked the Secretariat for the work and the proposed recommendations, adding that the proposed recommendations should also include the state support provided through respective funding policies.

- (1) *It is very important to make clear which sector has comparative advantages considering the potential of Albania, to introduce to the investors the sectors with real high performance/potential and a satisfactory return on investment.* The real weight of the agro-processing sectors is still unknown and for this reason, the comparative advantages of each agro-processing sub-sector in Albania are not known either. The medicinal and aromatic plants (MAP) sector performs well and analysis is needed to identify which are the country's real potentials for raw materials, what is the available human capital and how qualified it is, as well as the country's comparative advantages. A cost and benefit analysis is also needed for the fruit and vegetable sector. It is necessary to have an accurate review of the support policies, access to finance options, qualification of human capital and structure of the farms (grouped, fragmented, etc.).
- (2) *The dairy processing sector and its by-products have the largest trade turnover of all other industries (the sector has engaged directly around 350,000 farmers and indirectly around 450,000 farmers). On the other hand, it is the only sector that does not have any support schemes compared to the countries of the region, and its products "Made in Albania" are also penalized in the exports. In addition, although Albanian products are certified by certification laboratories, countries in the region (such as North Macedonia) do not accept them. The problem has been addressed to both MFE and MARD but no procedure has been initiated by these ministries.*
- (3) *Albania should have the subsidies/support schemes that the region has, i.e. the schemes to make Albania comparable to the countries of the region.*
- (4) *Businesses have problems with the exporting of animal products and nothing has been done to have a normal exchange of goods at least with the countries of the region.* Regarding phytosanitary certificates, their non-recognition by the food authorities in the regional countries is a true problem, emphasizing that Albania does not meet the three conditions: the matriculation, the analysis of the bacterial load and the count of somatic cells.

Tirana Chamber of Commerce expressed its commitment to send its proposals for all the sectors in the agro-processing.

Minister Anila Dena, MFE, said that during the last year, the government took some key actions to alleviate financially the farmer — e.g. reducing to 0 the VAT for agricultural inputs (as previously made also for the agricultural equipment), oil subsidy at 67 lek/litre for each farmer with a NIPT (taxpayer's identification number). Having a lower fiscal burden, the farmer can now reduce the cost of raw material, and increase the use of agricultural land (taking into consideration that the

agricultural land is not used at maximum for many reasons). Before looking at new schemes, let us consider why the schemes we currently have in place have not worked, because the country does have fiscal relief schemes and guarantee schemes since 2016. Land ownership issues should not affect the farmers for not coming together. We should not always ask new fiscal alleviations.

Deputy Minister Ermira Gjeci, MARD, among others, said that:

- (1) *Ownership of the agricultural land* has been one of the priorities of the Albanian government and the Law no. 20/20 “On the completion of the ownership transitional processes in the Republic of Albania” addresses all the issues of the agricultural property i.e. issuing ownership papers to the farmers. The unification of the agricultural land is a form of setting up farmers’ organizations, but a second possibility is the unification of the cultivars, i.e. products demanded by the market.
- (2) *In regards to livestock:*
 - a) Mr Jaka is right about the issue with Northern Macedonia, but recently an agreement has been signed between the ministers of agriculture of the two countries about the endorsement of phytosanitary certificates. *The issue with phytosanitary certificates is considered resolved*, and the latest changes that have been undertaken such as the oil subsidy will have a direct impact on reducing the costs—pushing farmers towards unions.
 - b) A market channel has been opened with America, while efforts are underway to open trade channels with Asian and Arab countries, but the EU remains a challenge. *Albania is still not allowed to export products of animal origin to EU countries*. Recently, with the veterinary reform, the State Agency for Veterinary and Plant Protection was set up, one of the EU’s criteria for the opening of negotiations — which is expected to address exports opening with EU countries.

Ms Ines Muçostepa, UCCIAL, said that perhaps it is time to talk about a proper legal package focused on products “Made in Albania”. Perhaps it is time to create an agency to promote/review the schemes or policies for the purpose of promoting the export of products “Made in Albania”. Unlike AIDA (which can continue to be an agency focused on the attraction of new investments), the new proposed structure should deal only with the products “Made in Albania” and export promotion, founded upon supportive legislation and with a 10-year economic development plan—devised in cooperation with the business.

Mr Ardian Lekaj, Business Chamber of Diaspora, suggested the grouping of issues in 2 categories.

1. *Imports:*
Policies constraining the import from abroad (with a seasonal character) should support domestic production.
2. *Exports:*
 - a) Raising awareness among the farmers about existing financial support programmes—there is a lack of information due to very poor communication.
 - b) Training of farmers for the production of products as per EU standards. From our experience, promoted Albanian products have not reached the international standard yet.
 - c) Farmers’ training on the use of machinery and equipment which increase quality and reduce costs.
 - d) Certification of Albanian products for the foreign market.

The above can be accomplished by conducting a thorough analysis of the “products of the basket” consumed by the people. Export/import support policies can be developed only based on this.

Mr Agim Rrapaj, KASHI, said that the members of the business associations agree with the main identified issues. The technical analysis presents very well the reality and if only a part of the recommendations were implemented, this would bring a tremendous change. Agro-processing is the weakest link in the production chain, especially for fruits and vegetables.

- (1) It is needed the reduction of production costs— to review the cost of electricity which takes up a considerable weight.
- (2) Vocational schools: Their current situation regarding agro-processing is not at satisfactory levels. There are good initiatives in terms of support and projects from the Employment Agency, but there are also areas like Lushnja that have undertaken private initiatives for the qualification of employees, not included in these projects.
- (3) Cooperation of farmers and coordination of production chain links. In addition to the laws listed in the technical analysis, *it should be added also the adoption of the law on agricultural cooperatives*. The current law in force since 2012 should be repealed or amended because in its current state it no longer serves the purpose for which it was adopted.
- (4) Cluster-related issues. The farmers want to cooperate to achieve results. Currently, we have 227 collection centres that cooperate with 44,000 farmers.
- (5) Technology: We have moved ahead in regards to milk processing but even though the return on investment has been small, the business has still invested to increase the standard and quality. If the bureaucracy continues to penalize the business, as already done till to date, then the sector will be facing great difficulties (e.g. problems in the issuing of certificates).

Mr Rrapaj expressed appreciation for the positive attitude of the ministries towards the presented problems and assured that the oil support scheme for the farmers will bring more revenues compared to the revenues collected from the taxes (assuming that this scheme will push the increase in the production and in the agro-processing).

Mr Ejup Ahmeti, Doni Fruit, said that currently, the region is doing more for the sector than Albania is doing. Currently, the country does not produce for export in the quality required by the EU countries. Main points:

- (1) It is needed a better harmonization of laws in the area of agriculture;
- (2) Production growth demands more of financial support in the state budgets;
- (3) A proper education of farmers is needed for greenhouse-production (currently lacking);
- (4) There are no farmer's technological cards and there is no proper production diary. Many products distributed to Greece or Italy are not of good quality and are damaging the image of products "Made in Albania";
- (5) Informality in the domestic market is hindering greatly the stimulation of collectors to conduct domestic trade e.g. fruits and vegetables. This informality comes due to the change in the input-recoverable VAT for the farmer in 2019. The purchase rate does not match with the selling rate (addressing the issue of fiscalization).
- (6) There is no development bank as in the countries of the region. Subsidies/grants should have higher ceilings.

Mr Mateo Colangeli, EBRD, highlighted that agri-processing is a key sector for Albania, which can deliver much needed growth and sustainable employment—even during these difficult times. Two important issues which need a special focus:

- (1) Trust in the quality of Albanian products and the testing that certifies it. The high import penetration when it comes to food in Albania clearly shows that this is an issue even for the domestic market, let alone for the exports. There is a clear potential for sustainable and organic agribusiness in Albania, particularly in the value chains that are in focus in this meeting. There should be no shortage of opportunities in the years ahead in the regional market as

well as the European one. There should also be no shortage of support from the international partners (e.g. under the EU green deal for the WB that should channel resources to sustainable food production in the region). *But the business must be ready to invest in quality and the authorities to enforce rules.* EBRD's role here is primarily through its Advice for Small Business programme, which makes available consulting support for local entrepreneurs with a strong focus on strengthening the quality and competitiveness of their products.

- (2) *Access to finance.* EBRD is committed to pushing for greater utilization of the Albanian Agribusiness Support Facility (AASF), which should play an important role, particularly on pre-financing IPARD. Two practical steps that would be helpful:
 - a) *Adjusting IPARD grant disbursement processes to the extent possible to facilitate the taking of security by banks on the underlying investment*—brought up also in the technical note.
 - b) *More effective communication and promotion of the facility.* Looking at the findings of the Secretariat's survey, it seems that further improvement is needed regarding the facility's level of visibility. Renewed efforts should be made, led by the participating banks and with the consulting support made available to them by the EBRD. *An important correlation is noted between access to finance and informality.* Companies should present financial statements to the banks demonstrating their true size and profitability—this is the main enabler for access to finance. Everyone must play by the rules when it comes to financial transparency and on quality standards to build the trust in the industry which is ultimately the only way to strengthen the value of the 'Made in Albania' brand and to gain greater access to international markets.

Mr Spiro Brumbulli, Association of Banks, said that access to finance is a problem not only in Albania but also in the EU. In Albania, this problem is more prominent as 50% of the population is rural, while less than 40% of the population does not have a bank account and a majority of those who have a debit card do not know that with this card they can also make payments.

It should be understood that banks are foreign and they do business according to the standards of their origin countries, undertaking also social responsibility policies. However, it should be noted that they are not the problem, because it is perceived that the banking sector is under attack.

Mr Brumbulli expressed disagreement over the figures presented:

- a) From the point of view of geographical distribution, there is no decrease in the distribution of banks, but there is a consolidation of banks from 16 to 12.
- b) The lending trend has not declined if we add the loans written-off during 2015-2019 for the amount of around 60 billion ALL. If we add to this amount the outstanding loan portfolio, this makes up to 620 billion ALL.
- c) 42 companies participating in the survey do not make a representing number, enough to make clear conclusions. If we make reference to the two indicators rated poorly "speed of approval" and "collateral", we agree that this reflects the reality, while we note that the two indicators are also interrelated. While in Albania the number of rejected loan applications is only 11%, in the EU/France this figure is 30%. According to Mr Brumbulli, it is perceived that banks are under attack because they are not performing well their lending function, while in reality, they are very interested to lend as they have abundant liquidity at their disposal.

We are open to legalizing and standardizing a financial guarantee instrument for SMEs which do not have access to finance due to the lack of collateral or for inability to meet the loan terms. We support the initiative proposed by the MFE and are ready to cooperate and implement this project.

Ms Diana Leka, IC Secretariat, brought to the attention that the discussion in the IC format is done precisely with the aim of each actor or party to present its own views. The data presented in the analysis refers to the data published by NBC, BoA, INSTAT, including as well as business comments, and the document provides only suggestions for discussion, without any prejudice.

Minister Anila Denaj, MFE, said that currently, the focus should be on three main pillars:

- (1) *Unification of farmers*, expressing approval for the request made by Mr Rrapaj regarding the legal interventions to be made in this regard;
- (2) *To increase the effectiveness of guarantees—if it is possible from the banks to do more in terms of collateral, or whether it should be covered 100% by the state;*
- (3) *Informality is the main impediment which is making companies not able to meet banks' requests for a true declaration of their financial situations*—businesses need to become aware that they cannot ask endlessly to the government and banks. We are before the opening of new IPARD funds and we hope that the combination of all instruments will be appropriate. We remain available to draft a working plan in this regard.

Ms Ledia Muço, EU Delegation, commended the Secretariat for its technical analysis and highlighted the following issues:

- (1) *The importance of increasing competitiveness, also in the frame of the Economic Reform Programme (ERP).* The reforms which aim to promote the business and the creation of a favourable business climate will be discussed under this document as there might be areas to be re-discussed and presented in a better way with the input of many actors;
- (2) *More attention is needed to be paid to the certifications that would increase the competitiveness of the products in the foreign markets;*
- (3) *The issue of property is still considered very problematic by the investors;*
- (4) *It is important to create the opportunities to absorb as much as possible from the schemes and funds made available to the business;*
- (5) *Farmers' union.* A selection needs to be made on the products with more potential in terms of resources that can help the production and development of these sectors.

Ms Frida Krifca, ARDA, expressed commitment to provide updated info related to the section of data about ARDA. Out of 600 applications in total in the IPARD program, about 175 applications have been for the agro-processing sector where the IPARD program covers 50% and the rest is covered by the business itself. Including all investments in this sector, in 23 months of work, about 229 contracts have been finalized with an investment value of 67 Mil Euros (investments according to EU standards). In the agro-processing sector, there have been issued 48 million Euros of investments, out of which 21.4 are grants (progress of these investments is monitored on-sight quite often). Despite the situation caused by Covid-19, investors are responding quite well and within the year it is expected a high absorption of funds. ARDA is coordinating the work with the banking sector so that the financing of the agro-processors comes as soon as possible because this financing is fundamental for the absorption of the funds. A proposal has been made to Minister Denaj for the banks to take as collateral also the investor's contract with ARDA.

Closing of the meeting

Due to another parallel engagement, Minister Denaj left the meeting 15 minutes before the end. Ms. Leka closed the meeting by apologizing that due to time limitations the word was not given

to all members¹ and promised that the final draft will be sent to the participants with the updates requested by the members.

¹ *We have annexed an additional comment submitted in written to the Secretary by one IC member.*

List of participants

Government representatives

1. Ms Anila Denaj, IC Chair/Minister of Finance and Economy
2. Mr Aleko Proko, Chief of Staff, delegated by Mr Eduard Shalsi, Minister of State for Protection of Entrepreneurship
3. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
4. Ms Mileva Meksi, Head of Investments Directorate, delegated by Mr Sokol Nano, CEO, AIDA
5. Mr Arian Leco, Head of Entrepreneurship Department, delegated by Ms Majlinda Vogli, CEO, Albanian Fund for the Development of Diaspora

Business Representatives

1. Mr Nikolin Jaka, Chair of the Chamber of Commerce and Industry of Tirana
2. Mr Përparim Kalo, Board Member, FIAA, delegated by Dr. Constantin Von Alvensleben, President, FIAA
3. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry (UCCIAL)
4. Ms Gerta Bilali, CEO, Confindustria Albania, delegated by Mr Sergio Fontana, President of Confindustria Albania,
5. Mr Enio Jaço, President, AmCham
6. Mr Bledar Mankollari, CEO, DIHA, delegated by Ms Stephanie Sieg, President, German Chamber of Commerce and Industry (DIHA)
7. Mr Ardian Lekaj, Legal Representative, Albanian Chamber of Diaspora Business
8. Mr Ejup Ahmeti, Administrator, Doni Fruits Albania (*ad-hoc*)
9. Mr Emiland Skara, Administrator, MEIA shpk (*ad-hoc*)

Development Partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania
2. Ms Ledia Muço, Economic and Trade Advisor, EU Delegation, delegated by Mr Mario Mariani, Head of Coordination, EU Delegation in Albania
3. Mr Keler Gjika, Financial Sector Specialist, World Bank, delegated by Ms Maryam Selim, Country Manager, World Bank in Albania

Special invitees:

1. Ms Ermira Gjeçi, Deputy/Minister of Agriculture and Rural Development
2. Ms Frida Krifca, General Director, ARDA
3. Mr Spiro Brumbulli, Secretary General, Albanian Association of Banks
4. Mr Agim Rrapaj, Chair, KASH
5. Ms Edlira Muedini, Project Manager, RisiAlbania

Absentee:

1. Ms Laura Qorlaze, Country Representative, IFC in Albania

ANNEX

Comment received in written:

Mr Bledar Mankollari, DIHA, submitted the following suggestions:

- (1) The financing situation of the sector is not perfect but probably sufficient at the moment (Banks, ARDA, AIDA, etc.). *The farmer seems to lack information about the opportunities that exist in the market today.* Municipalities could play a key role in this regard, perhaps by receiving funding from ARDA only for the dissemination of information, under the supervision of a central structure such as AIDA regarding the effectiveness of these funds. Maybe a special structure could be set up, but this would take time due to the legal framework.
- (2) *The problem of costs and production volume for the farmer due to the economy of scale (fragmented land).* Of course, subsidies on machinery-equipment, seeds and pesticides, as well as recently on oil, will have a positive impact, but they will not bring the final solution to increase the agricultural exports to a satisfactory level. The problem of the economy of scale will continue to remain. The law on cooperatives should have solved this problem in some way, but the lack of trust and entering into contractual relations with the “neighbouring farmer” in the absence of courts, it has prevented farmers from entering into partnerships. If we have a few examples today, they are not in fact genuine cooperatives in the spirit of the law (2012). They are more of a collector-farmer relationship. And this relationship works according to the rules of the free market perhaps with some preliminary contracts for the production of specific products, but in the end, the price and rules are determined by the collector, as the supply is greater than the demand or the bidder (the farmer) does not know the true demand—this is the “domain” of the collector.

Market information and finding the customer base is much more important than all the above factors, obviously if the standard required by the buyer is met.

- One possible solution would be to set up an agricultural stock market—this would bring a lot of transparency and it would involve a large number of farmers. Hence, increasing competitiveness. On the other hand, products would no longer go wasted because of their low price, as the products would be traded a year before being produced through securities and contracts, which of course must be guaranteed in insurance companies and banks.

If the farmer has contracts closed one year before production, the access to banks would become easier, because in this case, the farmer has already a business plan.