

RESEARCH ARTICLE

(Open Access)**Financial access for future investments in the Albanian agriculture sector**PJERIN SHOSHI^{1*}, ETLEVA DASHI¹, NATASHA HODO¹, NATALIA VLLAMASI²¹Agricultural University of Tirana, Faculty of Economics and Agribusiness, Tirana – ALBANIA² Agricultural University of Tirana, Faculty of Veterinary Medicine, Tirana – ALBANIA

*Corresponding author E-mail: pjerin.shoshi@gmail.com

Abstract

The Programme for Agriculture and Rural Development of the Government of Albania, aims to modernize and orient the entire agriculture sector. The sector is supported by different schemes (national and by international donors). The financial tool to implement this Program, is the “Agriculture and Rural Development Investment Fund”.

The Albanian agriculture sector is facing multiple difficulties in accessing financing tools for future investments [1]. One of the biggest issues for the Albanian farmers is the impossibility in accessing bank loans [3]. The National Guarantee Fund for Agriculture and Rural Development aims to enhance access to finance for the Albanian agribusinesses through loans for the farmers [2]. The Government of Albania in collaboration with the European Bank for Reconstruction and Development (EBRD) are implementing a financing tool which will facilitate the farmers access into loans and will reduce the interest costs by guarantying the banks for most of the loan collateral [5].

The National Guarantee Fund for Agriculture and Rural Development will be implemented in collaboration with 6 (six) Financial Institutions operating in Albania [2]. This Fund will be operating in the framework of the Albanian Programme for Agriculture and Rural Development. The guarantee provided by the Government of Albania and EBRD, enables the PFIs to reduce their collateral requirements. This will create facilities and enable more farmers to access loans and to finance their investments [4].

This article will analyze the future impact of this financial support for the agricultural sector and the enhancement of its competitiveness.

Keywords: The National Guarantee Fund for Agriculture and Rural Development, the Albanian Programme for Agriculture and Rural Development, farmers access to finance, Agribusiness Risk-Sharing Facilities, Technical Assistance.

Introduction

The Programme for Agriculture and Rural Development of the Government of Albania (GoA), aims to modernize and orient the entire agriculture sector. The Financial Tool to implement this Program, is the “Agriculture and Rural Development Investment Fund”, which contains several financial instruments and measures as follows:

- The National Guarantee Fund for Agriculture and Rural Development.
- Government’s Grants for Investments and Subsidies.
- EU Agriculture Program for Investments and Subsidies (IPARD II) [7].

- Other International Donor Development Programs in Agriculture, as well as
- Private Investors, Banks and other financial institutions.

The National Guarantee Fund for Agriculture and Rural Development, is an initiative of the Government of Albania, in close collaboration with the European Bank for Reconstruction and Development (EBRD), and in partnership, up to now, with 6 (six) Commercial Banks and Non-Bank Microfinance Institutions operating in Albania. The National Guarantee Fund for Agriculture and Rural Development aims to enhance access to finance for the Albanian agribusinesses through loans for the Farmers.

Material and Methods

The Guarantee Fund will assist the Participating Financial Institutions (PFIs) in:

- Agribusiness Credit Lines: unsecured credit lines to be provided to PFIs in Albania for on-lending to agribusiness entities for medium-long term investments.
- Agribusiness Risk-Sharing Facilities: unfunded participation in a portfolio-based risk-sharing instrument covering up to 50% of the aggregate amount of a portfolio of outstanding eligible agribusiness loans complying with a predetermined set of eligibility criteria (the Sub-Loans).

The Programme will benefit from two additional components:

- First Loss Risk Cover (FLRC): losses of up to 20% of the aggregate amount of Sub-Loans financed with the proceeds of the Agribusiness Credit Line.
- Technical Assistance (TA), which will consist of two components:
 - Agribusiness sector-specific TA: assessment of potential sector bottlenecks hindering access to finance through analysis of PFIs existing agribusiness portfolios and new targeted agribusiness clients.
 - PFI capacity building TA: advisory Services, to PFIs sub-borrowers and potential sub-borrowers, will be provided by the EBRD Small Business Support team.

The guarantee provided by the Government of Albania and EBRD, enables the PFIs to reduce their collateral requirements. This will create facilities and

enable more farmers to access loans and to finance their investments.

Implementation of the Guarantee Fund

The National Guarantee Fund for Agriculture and Rural Development is managed by the EBRD and the currently are selected six Participating Financial Institutions (PFIs); 4 Bank and 2 Micro-credit institutions:

- NOA (has started the lending process);
- ProCredit Bank Albania (has started the lending process);
- Fondi BESA (has started the lending process);
- Societe Generale Albania (has signed, and soon will start the lending process);
- Intesa Sanpaolo Bank (will sign in the coming months);
- Raiffeisen Bank Albania (will sign in the coming months).

To monitor the implementation of the Guarantee Fund a Steering Committee has been established:

- with the participation of:
 - the Minister for the Agriculture;
 - representatives from the Prime Minister's Office;
 - representatives from the EBRD;
- the Steering Committee meets at least once a year, generally one month after the receipt of the annual progress report.

Results and Discussion

The lending process has started since July 2016 and till the end of February 2017 it has registered a total of EUR 3 million credits by the 3 (three) PFI's (as mentioned at the above section) that have already started to credit the agricultural sector. The overall lending portfolio has been distributed as in the figure 1, below.

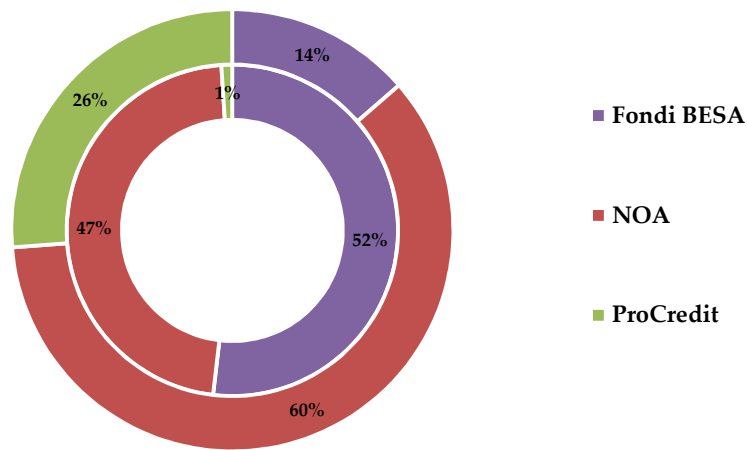


Figure 1: The distribution of the lending portfolio by PFI

Source: EBRD

*the small circle shows the number of loans granted

*the large circle represents the value of loans granted

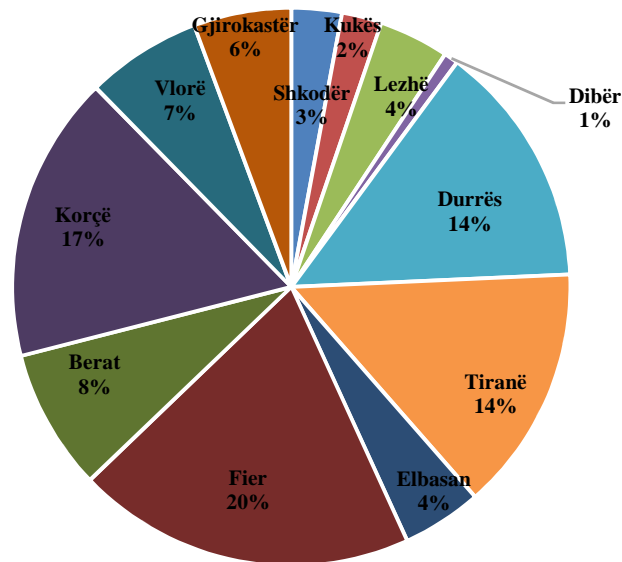


Figure 2: The distribution of the lending portfolio by district; Source: EBRD

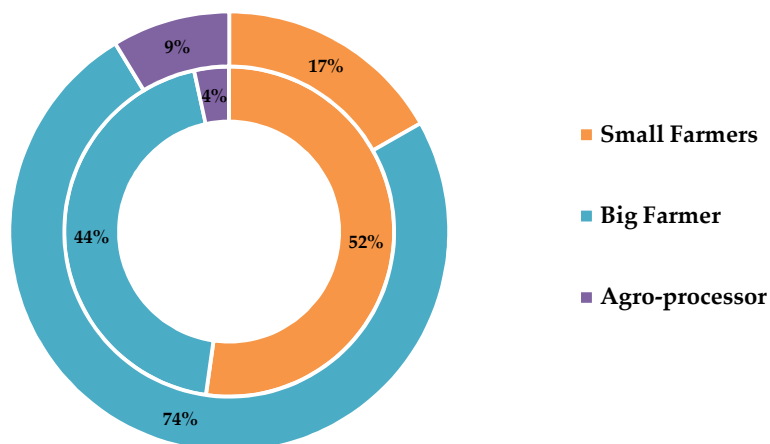


Figure 3: The distribution of the lending portfolio by type of client. Source: EBRD

*the small circle shows the number of loans granted; *the large circle represents the value of loans granted

The most supported districts from the National Guarantee Fund for Agriculture and Rural Development, as shown in the figure 2, below, have been Fier, Korçë, Tiranë and Durrës.

From the credit line, the biggest beneficiaries have been the small farmers, almost three quarters of the total lending portfolio. This distribution (figure 3) reflects the market's needs for investment.

The figure 4 below, shows the distribution of the portfolio by type of investment, it reflects the

distribution of loans where the largest share, with more than half of the funds, have gone for:

- the farm mechanization,
- purchasing animals.

The distribution of funds reflects the interest of the livestock sector and for the modernization of the production process. It is concerning the low level of lending for the reconstruction of farms and greenhouses.

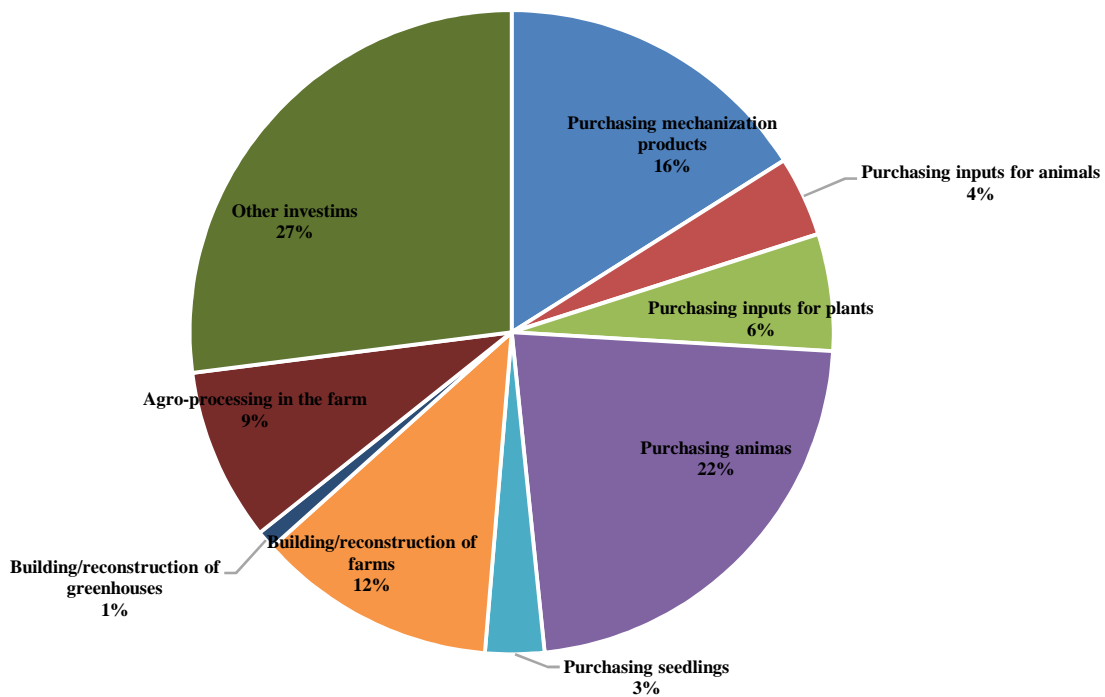


Figure 4: The distribution of the lending portfolio by type of investment . Source: EBRD

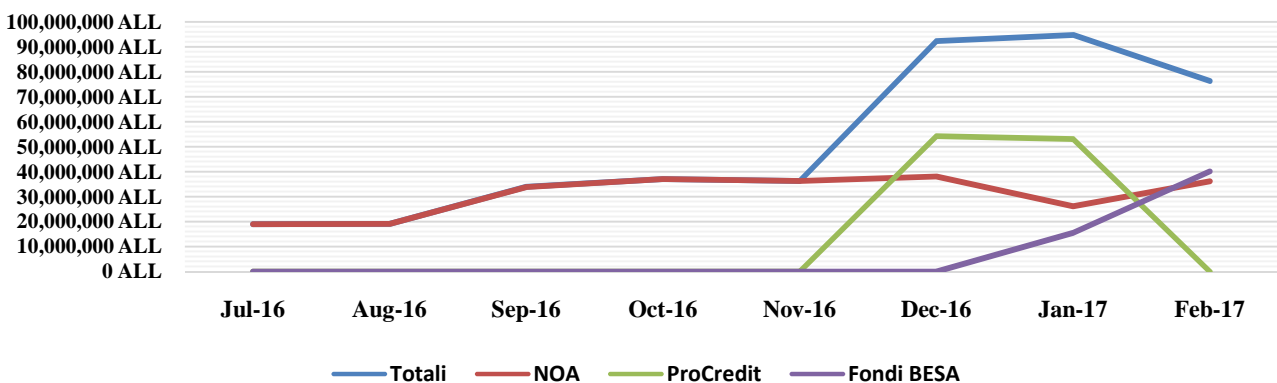


Figure 5: The lending progress. Source: EBRD

Conclusions

The lending performance by the PFIs, has marked a slight increase (figure 5), although not constant. In the first months of 2017, BESA Fund has

marked a significant increase, NOA has remained at 2016 levels while ProCredit has not given any credit in February. Figure 5 shows the effectiveness of the

micro-credit institutions comparing to the normal banks.

Acknowledgements

The National Guarantee Fund for Agriculture and Rural Development is helping the Albanian agricultural sector and it is improving its investment climate. This fund is a valuable alternative to the supporting schemes offered by ARDA (Agriculture and Rural Development Agency) and the foreign donors operating in the country.

This Guarantee Fund must be further improved in the coming months, but even now it has highlighted the sector strong need for financial support. It is facilitating the investors procedures and financial requirements to apply for investments in order to modernize and improve the production performance.

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