*Paper ID Number: 243*

**Paper prepared for the**

***EY International Congress on Economics II***

**"GROWTH, INEQUALITY AND POVERTY"**

**Ankara, November 5-6, 2015**

EKONOMİK YAKLAŞIM

Quarterly Peer-Reviewed Scientific Journal

Department of Economics - Gazi University

# Modeling the determinants of Agriculture: an assessment and a report of Albania's current situation with a future perspective

Zoela Dimo

Bilkent University, Department of Economics, Ankara, Turkey.

zoela.dimo@gmail.com

# Modeling the determinants of Agriculture: an assessment and a report of Albania's current situation with a future perspective

Zoela Dimo

*Abstract*

*So far Albania has been in a continuous search for foreign investments mainly in the areas of tourism, construction and manufacturing sectors. However, little interest has been shown to agriculture although it is a promising sector in Albania. The share of agricultural land in total land is only 24 %, but it has even been providing for about 19 % of the total GDP, a share which is higher than other countries of the region. Similarly, the sector has been the main source of employment in rural areas. Despite being a promising sector with a large share in the active population and a contributor to economic growth and poverty easement, agriculture appears to be limited because of the survival nature of farming, the small farm size and the faulty functioning land market. The focus of this paper will be on a careful analysis of the current agricultural situation in fields of organic agriculture, agri-food industry, farm income and employment, food policies, rural development policies, agricultural trade etc. Simultaneously, the paper will constantly keep a record of the European Union policies functioning in Albania with the purpose of making the country a competitive factor in the international arena. Therefore, by having the big picture of agriculture and a careful analysis of each factor in it, the paper will accomplish to present useful strategies which will in return help the amelioration of agriculture in Albania.*

*Keywords: agricultural trade, organic agriculture, rural development policies, foreign investment.*

*JEL classification: C50, Q13, Q15, Q18, Q56.*

## 1. Introduction

This study is an attempt to address the sector of agriculture in Albania alongside its issues by having under scrutiny the big picture of agriculture and then carefully analysing each of its determinants. By doing so, the purpose will be addressing the positive and negative aspects in any of the sectors in agriculture, what is causing them, what should and not be done in terms of developmental policies and strategies. Such identification will give space to recognizing which mechanisms and instruments to be implemented and which not. Although there has been little research on this area, this paper will try to provide a useful collection and analysis of the present data with the aim of assisting the amelioration of Albanian agricultural development in the future. The method conducted will be that of an action-reaction analysis (causal relationship) with the focus on the interventions made by the government subsidy programs or the foreign investments. Such a study will not be easy since it has the nature of an impact evaluation.[1] However, an impact evaluation is essential as long as it shows if a policy is beneficiary or not.

This study is organized as follows. Ensuing introduction, there will be an overview of the background of Albania. The second chapter will analyse the land use and farm structure as well as the farm income and employment. The foreign investments will be covered on the third chapter altogether with the agricultural trade. Afterwards, a more detailed approach will follow. In other words, the analysis will shift to more particular areas in agriculture such as organic agriculture and agri-food industry with respective chapters four and five. The sixth section is the core of the study which describes rural development policies and the impact they had or might have. Chapter seven sheds light on the investment climate of Albania and its broad opportunities. Finally, the conclusive remarks will sum up all the work with its results.

### *1.1. Overview*

Albania is a country located on the western Balkan Peninsula with a population of 3 million and a total area of 28,750 km$^2$, of which 24% is agricultural land. Agriculture provides up to 19% of total GDP, an amount higher than the neighbour countries (Food and Agricultural Organization, 2012). The rural population occupies 54% of the population which makes up a considerable number that mostly survives by agricultural activity. Agriculture began in Albania since the Neolithic Age (Food and Agricultural Organization, 2006). 75% of the area is hilly and mountainous and arable areas are mainly in the coastal plains and hills. Being an economy in transition, due to the transition it faced from a very isolated communist to an open democratic country, Albania faces several challenges. Agriculture plays a considerable role in providing for most of the population, however the small survival nature of farm size, the inappropriate land structure, the faulty functioning land market are some of the challenges causing agriculture not to be fully developed nor productive (ARCOTRASS, 2006).[2] Albania's economy is expected to rise in the following years due to ambitious projects the current government is undertaking. An auspicious perspective is expected to affect agriculture as well.

## 2. LAND USE, FARM STRUCTURE AND INCOME

### *2.1. Land use*

The land use structure in Albania has remained the same for a long period with 24% allocated for agricultural purposes. Despite environmental factors, the lack of funds leaves

[1] An impact evaluation evaluates the positive and negative, primary and secondary long-term impacts that result from a development intervention; assesses the direct and indirect contribution of these interventions to such impacts on final beneficiaries, especially for the poor, whether intended or unintended; explains how policy interventions contribute to an impact so that lessons can be learned (Pawson & Tilley, 1997).

[2] This study was financed by the European Commission.

around 40% of the agricultural area unused. Farmers cultivate in these lands products that they can use for family purposes, easy to trade and store on the farm (reminding us again about the subsistence nature of farming). Before the 1990s, during the communist regime, 60% of the agricultural land was irrigated, a higher level than the current irrigation level. This lower level is explained with “damage of draining systems, change of farm structures and management difficulties” (ARCOTRASS, 2006:7).

The land use is affected by the structure it obtained after the land privatization during the transition process from communism to democracy. Before democracy, farms were collective and with privatization they were divided into smallholdings. The 480.000 farms created were distributed to 383.000 families with the implementation of the 1991 Law on Land (ARCOTRASS, 2006:8). The buying and selling of the land in Albania is at a standstill, which in return causes many lands to be unused. According to ARCOTRASS study (2006), the land market is deficient due to the fragmentation land has and the need for consolidation, the strong connection of the farmer with the land which makes him dubious about selling the land inherited, ambiguous ownership issues, illegal legal constructions and the lack of younger generations contribution. All these factors reveal a misuse of the land and of the resources.

World Bank (2014) recognizes an amelioration of the land registration process. Due to a governmental project, the property and land registration records can be immediately retained online which facilitates the whole process. The government policy of prompting the land registration, forced many land owners to register their land. The process reached its peak during 2009-2010 with approximately 3.4 million registered properties. The land use shift from collective to private brought significant changes in the agricultural sector. The dynamics of the change were different from time to time.

In 1991-1996, a central planning policy dominated the sector with the only change that not all the lands were used, only the ones having favourable environmental conditions. The land market and legislation improvements of 1996-2003, brought more dynamic land use changes as Koomen, Stillwell, Bakema, Scholten (2007) declare. People became more aware of the damage their uncontrolled agricultural activity brought to the environment. The government of the upcoming year applied environment friendly and reasonable legislations. The terraced areas created during communism required an expensive maintenance, which in return made the government take the decision that those areas were used for pastoral purposes only.

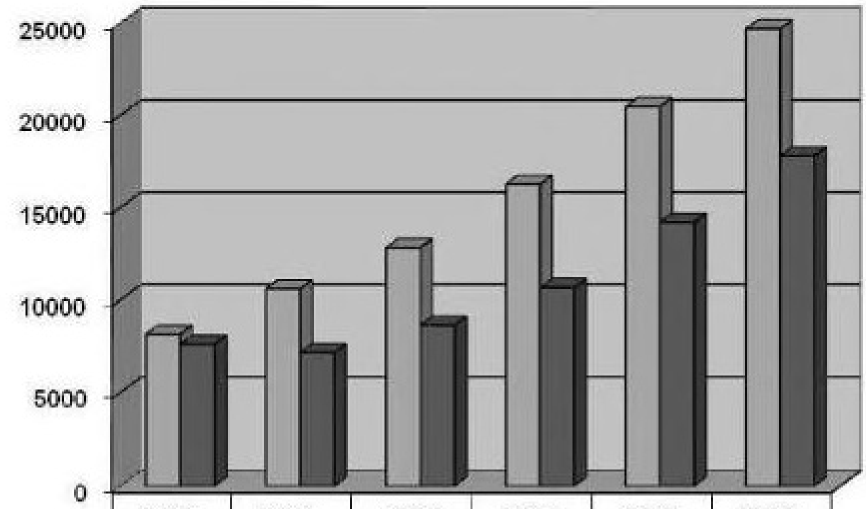
### *2.2. Farm structure*

The structure of agriculture changed thoroughly since 1991 according to Food and Agricultural Organization (2006) when instead of the large farm units, smaller private units were created. About 467.000 peasant families own 546.000 ha and they are excessively similar in terms of production (cereals, vegetables, potatoes, beans, tobacco and forage) and animal domestication (1-2 milking cows, 5–6 sheep or goats, 10–20 chickens, some swine, and probably transport animals), observation the data of Food and Agricultural Organization (2006) appears to suggest.

The major concern with the structure is the small farm size and the high fragmentation which occurred during the privatisation process. A little number of farms produces for the market, which are located in coastal plains or near suburban areas. Subsistence farms on the other side are located in the mountainous areas where the conditions are less favourable (ARCOTRASS, 2006). The structure can change if the owners send the land to other ambitious owners or if the land market improves.

The market economy Albania was introduced in democracy, did not really embrace the rural economy since farmers had the aim of producing for self-consumption purposes (Karasavvoglou, 2011). Karasavvoglou (2011) continues the argument that such self-sufficient farm structures are a significant model for not only supporting the national macroeconomic stability, but also a necessary model to be applied in sustainable rural development programs. The available evidence seems to point out that Karasavvoglou's (2006) claim is applicable. The micro-credit system of Albanian Savings and Credit Union (ASC) is the main source of crediting in agriculture. In 2001 there were 175 units and by 2008 they were operating in 805 villages with an annual average rate of territory coverage of 32.6% for the period 2004-2008 (Karasavvoglou, 2011:297).

Figure 1. The evolution of ASC network structure




| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Members | 8161 | 10584 | 12815 | 16260 | 20457 | 24682 |
| Active Clients | 7621 | 7157 | 8650 | 10655 | 14209 | 17809 |

Source: elaboration on Albanian Savings & Credit Union reports

### *2.3. Farm income and employment*

Agriculture sector is the main source of employment in rural areas. Compared to EU countries, labour force in agriculture sector for Albania is in a considerable amount. The highest labour force level is seen in 2006. A slight decrease is observed during 2006-2015 period in both Albania and EU countries (see table 1).

Table 1: Labour Force in Agriculture sector (Absolute Value in thousands)

| Years | Albania | EU28 (European Union) |
|---|---|---|
| **2006** | 633 | 12.512 |
| **2007** | 628 | 12.040 |
| **2008** | 619 | 11.645 |
| **2009** | 611 | 11.253 |
| **2010** | 604 | 10.867 |
| **2011** | 598 | 10.501 |
| **2012** | 592 | 10.137 |
| **2013** | 587 | 9.784 |
| **2014** | 581 | 9.439 |
| **2015** | 575 | 9.099 |

Source: own elaboration

The young generations seem to be in lower numbers, since they emigrate elsewhere. The urbanisation process is another important factor we shall not neglect. Many previously rural areas were converted into urban areas. Thus, it caused a shrink in the agricultural labour force of Albania. The income agriculture provides the country with, has on the contrary faced an ample increase from 2006 to 2013 (see table 2). This serves us to identify significant positive changes in the agricultural sector.

Table 2 : Value of Agricultural production

| Years | Gross Production Value (constant 2004-2006 1000 I$)[3] | Net Production Value (constant 2004-2006 1000 I$) |
|---|---|---|
| **2006** | 1.057.673 | 987.233 |
| **2007** | 1.061.189 | 998.745 |
| **2008** | 1.109.588 | 1.038.062 |
| **2009** | 1.158.058 | 1.080.748 |
| **2010** | 1.229.875 | 1.137.337 |
| **2011** | 1.288.891 | 1.193.519 |
| **2012** | 1.362.021 | 1.267.507 |

[3] FAO applies ”international prices”, expressed in so-called ” international dollars”, which are derived applying a Geary-Khamis equation system to the agricultural sector. This method assigns a single “price” to each commodity. For example, one t of maize has the same price regardless of the country where it was produced.

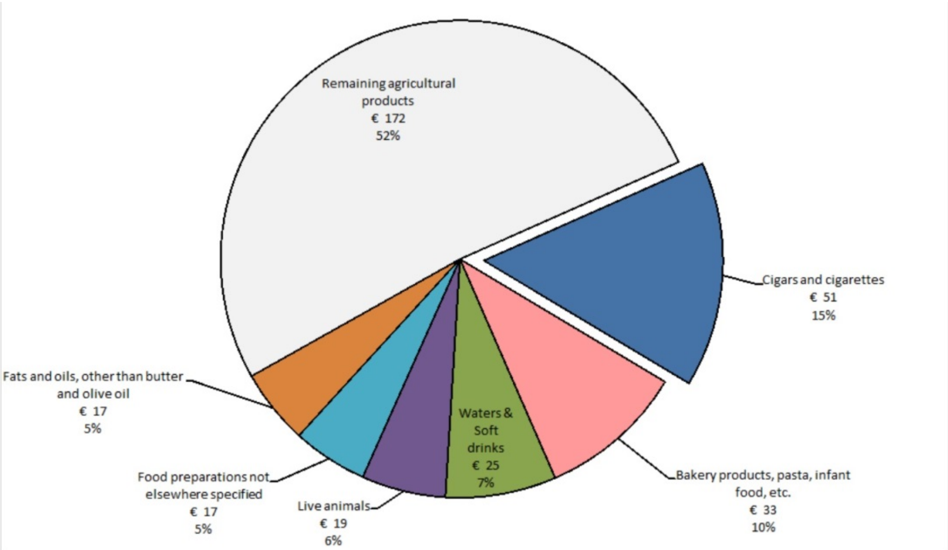
| | | |
|---|---|---|
| **2013** | 1.315.882 | 1.232.258 |

Source: own elaboration (by using FAO statistical data)

## 3. EU AGRICULTURAL TRADE WITH ALBANIA

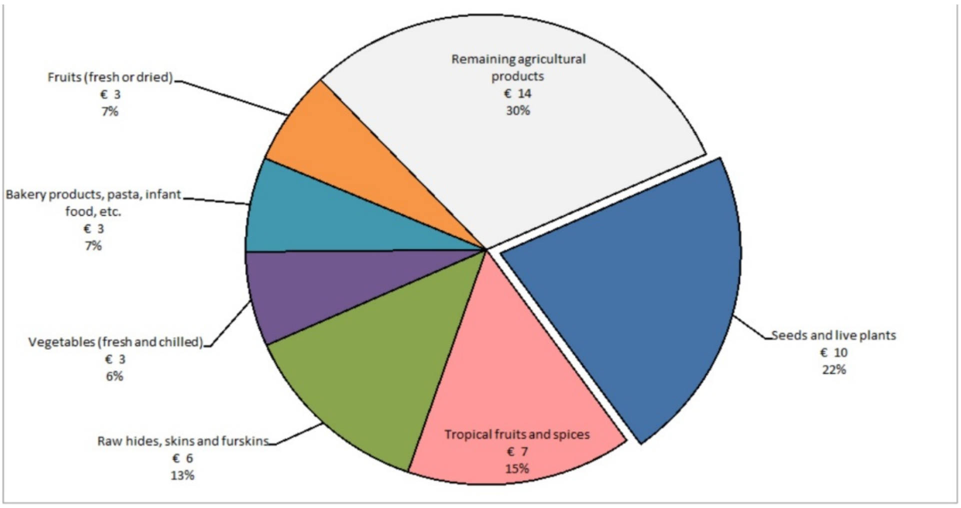
Albania has signed a Stabilization and Association Agreement (SAA) with the EU in 2006 and in 2014 it received the candidate status. Albania receives assistance for respectively: Transition assistance and Institution Building and Cross Border Cooperation. SAA provided agricultural products with a free access to the EU except for: live bovine animals and meat of bovine animals, sugar and wine (for sugar and wine tariff quotas were agreed). However, the European Commission Report (2013) points out a serious trade deficit in agricultural products from Albania to the EU. The country is a net importer of agricultural and food products, which is an indicant alerting that either agriculture is not fully developed and used, or Albanian residents do not trust domestic products. Albania imports mostly flour, preparation of cereals, starch or milk, fruits and nuts, live animals and fats and oils. It exports oil seeds and oleaginous fruits, raw hides and skins and other animal products (European Commission Report, 2013). The following figures will give more detailed information on the trade.

Figure 2. EU 28 exported agricultural products to Albania 2013 in million Euro and % share in total agricultural exports (334 million Euro)




Source: European Commission Report, 2013

Figure 3. EU 28 imported agricultural products to Albania 2013 in million Euro and % share in total agricultural imports (46 million Euro)




Source: European Commission Report, 2013

An important step for the integration in EU process is the implementation of Common Agricultural Policy (CAP). It serves as a progressive policy for the Western Balkans concerned with rural development. CAP is more than needed in such area where the farms are subsistence oriented and high production potentials are poorly used (Erjavec, 2007).

Despite being a self-consumption oriented agriculture, Halbrendt and Lepczykhas (2013) claim it has been highly productive especially in food production and vegetables according to Albania to EU27 yield ratio. On the other side, agricultural and agri-food products constitute a trade deficit which resulted with a ratio of imports to exports 9:1 in 2010. The import prices increased more than Albanian export prices which caused a significant decrease in trade (INSTAT, 2011). Halbrendt and Lepczykhas (2013) highlight the 2010 progress with a value of 66 million euros agri-food exports of which 76% went to EU countries. Similarly, the agricultural trade with neighbouring Balkan countries brought an increase to 60% in export terms.

One causal factor to the low agricultural trade of Albania is also technology because processed agricultural products need modern facilities and technology (Halbrendt & Lepczykhas, 2013:224-226). The factor which could improve technology and in return ameliorate agriculture is definitely investment. The current investments as Halbrendt and Lepczykhas (2013) identify, are humble since there are continuing problems of ownership, small farm size and investors find other sectors more profitable.

## 4. ORGANIC AGRICULTURE

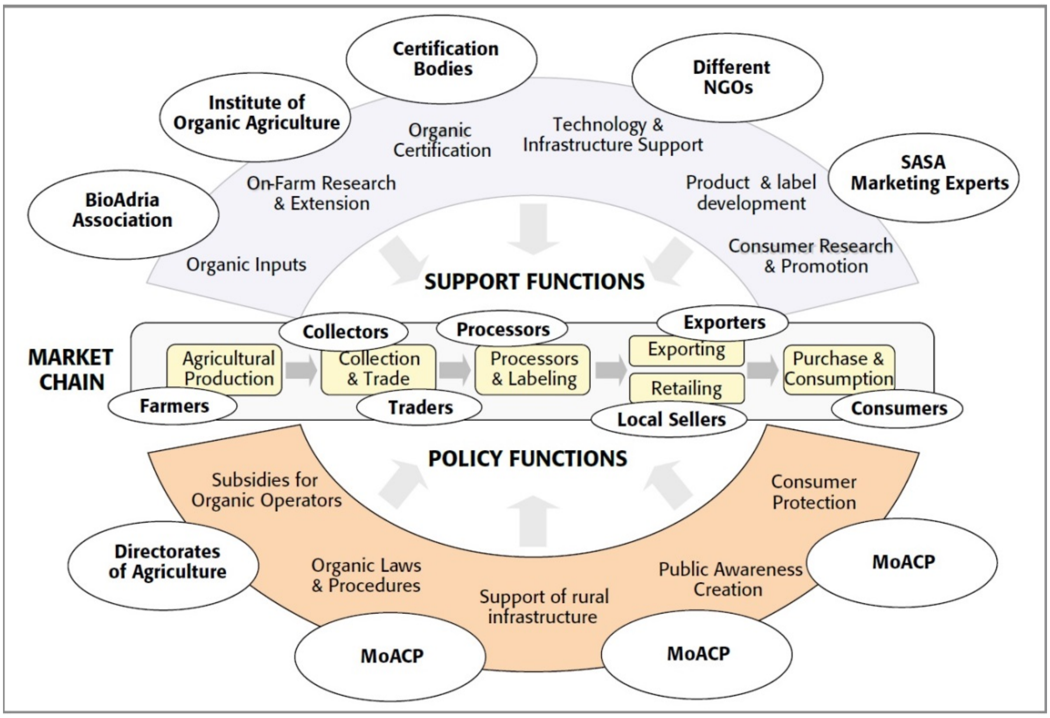
### *4.1. Actors involved in the organic sector*

This sector is very young and understanding the actors involved in it, means understanding the dynamics and anticipating the future advancements. The role each of them has varies from one product to another as the nature defines the responsibility. Market chain actors for instance, are those who collaborate in the production and marketing process. This group state Bernet and Kazazi (2011), involves farmers, collectors, traders, processors, retailers, exporters, consumers (see figure 4). For the domestic market products like vegetables and fruits, olive oil and wine the role of farmers is important.

The small size of the market according to Bernet and Kazazi (2011) implies that farmers play multiple roles from production and collection to trading and marketing. As for the export market, few companies play the role of raw material processors and final product sellers in international arena (Bernet & Kazazi, 2011). Recently, their activity is being expanded to domestic markets, as well. Recognized as the most important service providers are SASA (project funded by Switzerland), BioAdria and Institute of Organic Agriculture (IOA).

Regarding their responsibilities, one can list the following: IOA assists with the technical advice, BioAdria provides sector knowledge and management while functioning as a branch of SASA project. It was BioAdria which helped many farmers focus on organic agriculture by offering subsidies and thus increasing its members number up to 130 by 2011 (Bernet & Kazazi, 2011). The Ministry of Agriculture and Consumer Protection (MoACP) continue Bernet and Kazazi (2011), is responsible for the necessary monitoring and supporting of the sector, where the participation of Albanian exhibitors in Nuremberg was funded by MoACP.

Figure 4. Actors involved in the organic sector in Albania




Source: Organic Agriculture in Albania sector study, 2011

### *4.2. Current situation*

Although we mentioned that organic agriculture is still young and in an adopting phase, the 2011 study of Bernet and Kazazi reveals that the mentality of consumers and producers is changing as more farmers tend to orientate toward organic sector. The organic sector regions vary according to the climatic and environmental conditions which causes the organic vegetable production to be based on the coast (due to mild winter, good soil conditions, access to irrigation). The coastal organic products are olive oil and wine. Remote mountain areas are being more specialized for the cultivation of special herbs and medicinal plants (Bernet & Kazazi, 2011). However, the lack of organic inputs has caused an increase in the imports for them and the list includes fertilizers, armicarb, pheromones. By implementing new practices and increasing the number of organic oriented farming structures, the high demand for organic inputs will seemingly create domestic production for them.

Table 3: Main spices and herbs cultivated and collected in Albania

| Latin Name | English Name | C/W* |
|---|---|---|
| Melissa officinalis | Lemon balm | C&W |
| Anthriscus cerefolium | Chervil | C&W |
| Origanum majorana | Marjoram | C |
| Origanum vulgare | Oregano | C&W |
| Allium schoenoprasum | Chives | C |
| Rumex acetosa | Sorrel | C&W |
| Saturea Hortensis | Summer savory | C&W |
| Apium gravolense | Sedano | C&W |
| Eruca sativa | Rucola | C |
| Ocimum basilicum | Basil | C&W |
| Artemisia dracunculus | Tarragon | C |
| Anethum graveolens | Dill | C&W |
| Coriandrum sativum | Cilantro | C&W |
| Mentha spicata | Spearmint | C |
| Mentha piperita | Mentha | C |
| Petroselinum crispum | Parsley | C |
| Eruca sativa Mill. | Rocket | C |
| Salvia officinalis | Sage | C&W |
| Thymus vulgaris | Thyme | C&W |

Legend: C= Cultivated, W=Wild Collection
Source: Organic Agriculture in Albania sector study, 2011

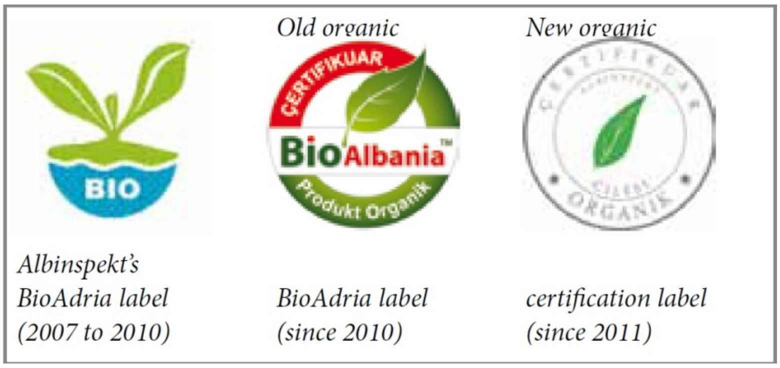
### *4.3. Organic Trade and Marketing*

While organic products market is mainly foreign trade oriented, the growing number chain of supermarkets will be a factor changing this fact. The domestic organic market as Bernet and Kazazi (2011) identify, involves vegetables, fruits and wine while export market has special herbs and wild collected plants. As the international demand for medicinal plants and special herbs increased, Albanian organic sector came up with the creation of Essence Producers and Cultivators Association (EPCA) in 2005, which gave space to an increased collaboration amidst exporting companies, collectors and farmers (Bernet & Kazazi, 2011). This increased collaboration was witnessed with international importing companies as well (from US, the EU), which according to Bernet and Kazazi (2011), formed a stable partnership with Albanian companies by also financially supporting them or offering advice.

The international arena is more interested into importing mushrooms, chestnuts and organic olive oil. Since mushrooms maintenance is more difficult due to seasonal changes, the chestnut market is developed more. The 2.400 ha of forests produce more chestnut than what is already sold and in the period of September and October, Albania sells 4.000-5.000 tons to Italy, France, Germany and Italy with which partnership is established (Bernet & Kazazi, 2011). The last but not the least, organic olive oil as Bernet and Kazai (2011) describe, has proved to be better than that in Spain or Greece in two international competitions in Italy in 2005 and 2006.

By the same token, the success brought established partnerships with developed countries where we can mention that of Musaj shpk company and Switzerland. Domestic market was subsidized by SASA project which overcame in great amounts the problems related to the limited purchasing power of Albanians and the limited seasonal supply with organic products (Bernet & Kazazi, 2011). Creating more than 60 labelled products, SASA succeeded into attracting consumers' attention (see figure 5).

Figure 5. Private organic logos




Source: Organic Agriculture in Albania sector study, 2011

### *4.4. Opportunities and challenges*

It is of crucial importance identifying the present and future opportunities or challenges a sector faces with. By doing so, the future policies applied will be of better and improved nature.

The organic sector has the respective strengths and weaknesses:

Strengths:

- Many agricultural productions constitute by organic ones
- Varied organic production

- Interest of the international factor
- Linkage between organic and typical products

Weaknesses:

- Faulty structures (small farm size, ownership problems, subsistence nature farming)
- Not enough cooperation among organic actors
- Not much access to organic inputs
- Weak domestic market development

The opportunities lying throughout this sector are various such as:

Opportunities:

- Domestic market development would bring further development in tourism and supermarkets expansion
- A growing interest in domestic traditional products
- Favourable location of Albania
  - Experience to be gained from neighbouring countries

## 5. AGRI-FOOD INDUSTRY

### *5.1. Background and challenges*

It has to do mainly with the production of food agriculturally. The agri-food industry existing today was created as a result of the privatisation process which started in 1992 with bread, flour, milk, alcoholic and non–alcoholic beverage industries (Food and Agricultural Organization, 2012). There can be seen a decrease in the land share allocated for organic agriculture from 0.11% in 2005 to 0.02% in 2010, but the producers have increased from 93 to 110 (FAO, 2012).

FAO (2012) described the agri-food industry conditions as promising for the future, hence the food industry has reached a sustainable development consisting an important sector which soon will be a crucial part of agriculture. This sector has faced an extensive increase since 2000 with an approximate increase of 24,8% per year. It numerated 2.457 enterprises in 2009 and it employed 6.832 people (FAO, 2012). In agriculture and particularly agro-industry, the agro-processing industry comprises 24.4% in it.

Despite this background of development throughout years, agro-industry has its own challenges to handle (FAO, 2012):

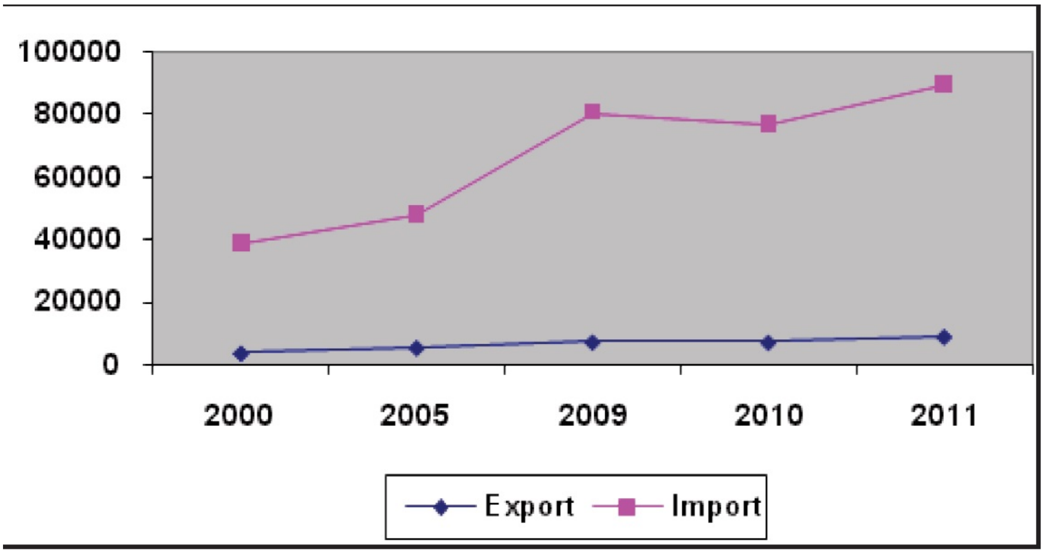
- Imported products make up a problem for domestic products (competitive)
- Safe and quality production
- A lack of facilities (renovation technology, processing capability, packaging, logistics and delivery speed)
- Not enough investment in research and development
- Problems in internal supply and internal chain of actors

- Depending on raw materials of import which subsequently makes the whole production excessively expensive

### *5.2. Trade*

Since 2000 Albania is trying to comply with international trade rules and after various agreements with CEFTA members in 2007, with Turkey and EFTA in 2008, products to be exported do not need special authorizations to be sold abroad (FAO, 2012). The 2011 constituted as the year when the trade reached its peak, as FAO (2012) examines, the four major countries with the respective export percentages were: Italy (62%), Serbia (18%), Greece (11%) and Spain (3%). However, while exports are being made possible, the agri-food industry does not seem to be as much successful in the domestic market where the needs are fulfilled with foreign imported products (Gabeta & Dhimitri, 2012). With the Agreement of Free Trade (AFT), from 2002 and ensuing years the trade highlight Gabeta and Dhimitri (2012) has had an increase of 9% in either imports or exports and mainly with neighbouring countries like: Macedonia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Romania, Bulgaria and Kosovo.

Figure 6. Export – Import of Agricultural Products & Grocery




Source: Statistical Yearbook, Ministry of Agriculture, Food and Consumer Protection

The International Trade of Albania is characterized as follows (Gabeta & Dhimitri, 2012):

- A low internal production
- Negative trade balance
- Cereals, milk, meat, fish and fruits are imported (basic products).
- Exported products are products for special trade such as frog legs, fish and some plants types.

### *5.3. Comparison of agri-food industry in Albania and European Countries*

Some regions in Albania, as the south-eastern region (Korça), have a greater interest into developing agri-food industry due to favorable environmental conditions or traditional factors. The region of Korça is recognized, as Gabeta and Dhimitri (2012) put forward, for vegetables and fruits processing, industry of industrial plants' processing, meat, milk, and drinks' processing industry.

By taking into analysis the meat processing industry one can clearly see that it has a negative balance as the overall trade does. Simultaneously, the number of businesses' number has fallen annually: From 75 in 2009 to 65 in 2010 and 63 in 2011 (Gabeta & Dhimitri, 2012). The total production value this sector brings is 70 million $. The meat processing industry has problems mainly related to technology, which doesn't comply with the EU standards and as Gabeta and Dhimitri (2012) emphasize, causes low export levels. The sector though has a great potential for investment especially in the slaughterhouse sector which is under the EU standards (Gabeta & Dhimitri, 2012) and by an organized mechanism of strategies and investments the internal chains can be improved and thus offering a competitive factor of meat-processing industry in international levels.

As for the milk-processing industry, (Gabeta & Dhimitri, 2012) note a potential of Albania to complement the foreign and domestic market needs, which in return is inhibited by the lack of adequate standards that the foreign market requests. The business environment of milk-processing industry, identifies its suppliers as the weakest chain in the whole production system, since they supply only for a small market and usually informal (Gabeta & Dhimitri, 2012). Again here, the lack of adequate technology and equipment inhibits a progress of the industry, but the profitability of this business is dubious for foreign investors, which prevents them in choosing this sector for investment in Albania.

## 6. RURAL DEVELOPMENT POLICIES

### *6.1. Background*

As the ARCOTRASS study (2006) calculates, Albania constitutes of 12 rural areas. The most predominant problems are: migration from rural areas, very limited size of holdings (average of 1.2 ha - compared to 14 ha in EU-28), poor marketing of products, underdeveloped irrigation and drainage systems, low technological level, weak organization of farmers and low level of development of the processing industry. In general there is low interest for investment in agricultural activities alleges European Commission report (2013).

The government itself, states the EU Albania 2014 progress report, as for 2014 has increased funds for agricultural sector in terms of support and investments schemes from € 6.8 to €12 million and the Instrument for Pre-accession Assistance for Rural Development (IPARD) has continued to be implemented. Meanwhile, a law on industrial property rights was confirmed to be implemented in May 2014 and for the organic sector subsidizing schemes and training have taken place regularly (EU Albania Report, 2014). As far as the operating structure is concerned, although there is some progress, further assistance is needed so that programmes similar to IPARD serve the purpose of creation (EU Albania Report, 2014).

### *6.2. Albania National Rural Development Strategy (NRDS) and CAP*

After signing the Stabilisation and Association Agreement (SAA), Albanian Ministry of Agriculture , Food and Consumer Protection (MoAFCP) realized it was of high importance to establish strong policies to improve the agricultural sector and the first attempt to this was the Albania National Rural Development Strategy (NRDS), whose objectives are listed as follows (ARCOTRASS, 2006):

- By supporting initiatives and restructuring in processing industry, the aim was to increase the competitiveness of the agro-food sector
- A good management of natural resources in order to protect and ameliorate the environment
- Create space for variable economic activities and increase rural areas quality life
- Establish institutions capable of applying efficient rural development plans

The latter policies Albanian government took were concerned with forests and pastures which make up a significant source of employment (ARCOTRASS, 2006) and which consisted of protection and delegation of responsibilities to local administration. The collaboration with the EU has never ceased to produce constructive programs to assist rural development of countries. One of them has been CAP (Common Agricultural Policy), which started functioning in Albania since 2000. The main focus CAP were customers' and taxpayers' interests, food safety and taking territorial measures to protect the environment (Halbrendt & Lepczyk, 2013). Single Farm Payment (SFP) is a concept of CAP envisioned to be a helpful policy to farmers, which is paid to them under certain provisions such as: plant health, animal welfare, hygiene and environmental minimum standards (Halbrendt & Lepczyk, 2013).

### *6.3. The law on Agriculture and Rural Development and EU funded projects*

The next measure taken by the government was that of another law addressing the main concerns agriculture had in that time. The law on Agriculture and Rural Development of 2007 also set a list of conditions that if fulfilled would provide farmers with support funds (Halbrendt & Lepczyk, 2013). The main points in the law as Halbrendt and Lepczyk (2013) mention were:

- Improving competitiveness of agriculture by taking measures addressing human resources improvement, cost support, food chain and safety.
- Land management and environment improvement
- Improving quality of life, providing services and trainings and protecting rural heritage

The ensuing policies as those of 2007-2013, state Halbrendt and Lepczyk (2013), started having as priority the local administration which was crucial in the successful functioning of the undertaken initiatives. The budget policy was reinforced by EU funded projects such as the LEADER and Mountain Area Development Agency (MADA), but the policy nature changed with the focus on trade liberalization (Halbrendt and Lepczyk, 2013). The initiatives to be mention are: the membership of Albania in World Trade Organization in 2000, the Free Trade Agreement with Turkey in 2006 and other EFTA (European Free Trade Agreements).

### *6.4. Food and Agricultural Organization Report (2012)*

As far as Albania is concerned, the government has planned that during 2010-2015 period the public spending on research helpful to agriculture sector to be 0.6% of the GDP by 2015 , the number of the researchers to be doubled, more training activities organized and more innovative plans for companies (Food and Agricultural Organization, 2012). A current and successful program has been that of on-farm-research and the systematic feedback and monitoring system which identifies problems that farmers typically encounter, as the Food and Agricultural Organization (2012) proves.

In Albania the EU has applied the Instrument for Pre-accession Assistance (IPA) which offers funds for Albania to ameliorate food safety standards but however there are still problems (FAO, 2012). To overcome these problems, technical documentation is provided, a database for recording food establishments and more specialized people for food hygiene controls.

Other measures taken by Albanian government aim for optimization such as(FAO, 2012):

- Creating a suitable business environment by making the business starting process easier with notarization documents elective. Such an initiative was appreciated by Doing Business Report.
- Tax relief
- Competitiveness, regarding it, Albania was ranked 123 for Innovation, 98 for Business sophistication factors, and 92 for agricultural policy costs.

### *6.5. Analysis on subsidy policies*

As the mountainous remote areas are the source of organic products exported, subsidizing policies would be necessary to improve collection, storage and processing facilities (Bernet & Kazazi, 2011). Of great interest should be also the export of products as final products with the label of “Made in Albania”, continue Bernet and Kazazi (2011) to suggest, as it would create an image and form solid international partnerships. Another focus should be the domestic market, insist Bernet and Kazazi (2011), where the consumers should be convinced that the quality they are getting is that of international standards.

Lampietti, Lugg, Celen and Branczik (2009) point out that most of the agricultural support policies are of a great importance in the advancement of the sector, but there is a slight possibility that since Albania’s agriculture sector has not faced major significant long-term changes, then there is something wrong in these support policies. Such policies are of great importance in the future of economic growth of both originating country and the EU and the argument of the authors continues with the elaboration of the idea that hence government allocates the people responsible for the application of the policies, the probability that these funds are misused is high.

Furthermore, it is likely that because of the excessive and repetitive subsidizing policies applied, the modernization of the Western Balkans in agriculture is delaying (Lampietti, Lugg, Celen & Branczik 2009). The suggestion offered by the authors is that of a shift in the policy nature, with instead of subsidizing platforms applying developmental platforms and investments in rural areas. Among the Western Balkan countries, Lampietti, Lugg et al. (2009) observe that Serbia has undertaken constructive rural development platforms with measures to improve food quality, to support farm investments and to prepare an early retirement plan.

### *6.6. Current developments*

After Albania gained the candidate status to enter the EU, a 71 million fund in Euro was granted to support Albania in agriculture sector for the period of 2016-2020, a declaration made by Ministry of Agriculture. The Ministry of Agriculture will distribute the EU grants to farmers with the aim of new investments to increase planted surfaces, to supply farmers with technical assistance, modernize greenhouses and processing industry and develop more the fishing industry (Invest in Albania, 2015). Following this initiative taken by the EU, the current Minister Panariti has simultaneously stated the importance of Albanian products in the EU market and the purpose of the government to make the products fully meet the required criteria (Invest in Albania, 2015).

Significantly, during 2015 as Invest in Albania examines, the Albanian Agricultural exports doubled to the amount of 4.4 billion ALL (Albanian Lek) and the most exported products were reported to be vegetables, among which tomatoes and onions, bringing 2.1 billion ALL revenues. 2015 has been a year of great significance since the Made in Albania exportation has become a reality with the first exportation of Albanian eggs towards Greece, an auspicious event which will secure the eggs exportation in Germany as well no later than in 2016, Invest in Albania (2015) reports.

2015 has also ensured Albania with certain foreign collaborations and partnerships. The merit to this has been to the Minister of Agriculture Panariti, who made possible a cooperation of Albania with Ukraine after attending an international forum about agriculture in Ukraine as a speaker of the panel. As a result of the agreements, the trade among two countries will ease (Balkanweb, 2015). Likewise, another summit of agriculture ministers from Central and Southeast Europe and Chinese officials in Sofia in June 2015, concluded with an Association for the Promotion of Cooperation between China, Central and Southeast Europe countries in the Agriculture Sector (Invest in Albania, 2015). Albanian products are expected to offer exports to the Chinese market as well.

Regarding the collaboration with neighbouring countries, Albania and Kosovo co-operations seem to flourish at higher levels for the upcoming years. A concrete step taken into achieving more productive collaborations will be that of the gathering of farmers from both sides in Pristina capital during September 30th and October 3rd in 2015 in the 9th edition of *Fair of Albanian Agricultural and Agro Industrial Products* (Invest in Albania, 2015). Discussions will take place, according to Invest in Albania (2015), on production and processing in agricultural products, financing opportunities and strategic projects among two countries in the agriculture field.

Furthermore, Albanian Telegraphic Agency (2015), notifies about the office of FAO to be established in Tirana capital after the agreement Minister Panariti signed with FAO. Such an event will create opportunity to develop agriculture in coherence to European standards, by complying with the objectives FAO has: "the elimination of hunger, food insecurity and malnutrition, the transformation of agriculture into a more productive and sustainable sector and the reduction of rural poverty" (Albanian Telegraphic Agency, 2015).

The European Bank for Reconstruction and Development (ERBD), has assisted Albania into launching a new financing program, that of *National Fund of Guarantee for Agriculture and Rural Development*, which will finance farmers up to 50& and convert the Agency for Agricultural and Rural Development (AARD) into an intermediate between the farmers and the banks (AARD, 2015).

## 7. CONCLUSIVE REMARKS

Assessing the determinants of agriculture in Albania, a country which faced major changed during the transition period from communism to democracy, has not been an easy task. Aspiring to be a member of the EU, Albania has undergone several challenges in adaption. The agriculture sector has adapted new transitions from collective to private farm systems and despite financial support of either EU or Albanian government it has not reached a full development. In the recent years, government has implemented several strategies to ease the progress of this sector.

It is of a great significance that 19% of the total GDP is provided by agriculture and simultaneously of a great sorrow the fact that agriculture has not surpassed the subsistence nature it has. By the logic of an action-reaction (causal relationship) analysis and impact evaluation, it was possible to carefully go through each of the determinants defining and affecting agriculture in Albania.

From the first chapter issuing land use and farm structure, one can understand the hardship this sector encountered when entering the new privatisation period. Consequently, lacking experience for successfully applying the privatisation, the farm structure present was and is small and fragmentary.

Ensuing the first chapter, the second chapter concerned with issues of agricultural trade of Albania and EU countries, provides evidence of a negative balance in the agricultural trade. Imports prevail over exports in this sector as well as in other sectors in Albania.

The following two chapters analyse in details both the opportunities and challenges that organic agriculture and agro-industry have to deal with.

The core part of this study which is that of rural development policies goes into details by keeping a historical track of the data from 2000 to 2015. In this section as well as in other sections, the causal relationship and impact analysis of each factor have served as the main methods for a thorough description of the process. Rural development policies and the respective goals are presented alongside with the positive and negative aspects. The key part of the chapter is the concluding one with the current developments, present achievements, dynamics and initiatives which offer a possible perception and better insight of the future in the agricultural sector.

**REFERENCES**

ARCOTRASS (2006). *Study on the State of Agriculture in Five Applicant Countries.* European Commission: Albania Country Report. Retrieved from http://ec.europa.eu/agriculture/analysis/external/applicant/albania_en.pdf

Agjencia per Zhvillim Bujqesor dhe Rural (2015). *Fondi Kombëtar i Garancisë per Bujqësinë dhe Zhvillimin Rural.* Albania: Agency for Agricultural and Rural Development.

Balkan News (2015). Panariti ne Ukraine: Tregje te reja per prodhimet bujqesore shqiptare. *BalkanWeb.* Retrieved from http://www.balkanweb.com/site/panariti-ne-ukraine-tregje-te-reja-per-prodhimet-bujqesore-shqiptare/

Bernet, Th. & Kazazi, I.S. (2011). *Organic Agriculture in Albania sector study.* FiBL. Retrieved from https://www.fibl.org/en/shop-en/article/c/international-en/p/1585-sectorstudy2011-albania.html

Erjavec, E. (2007). The EU Common Agricultural Policy and the Western Balkan Integration Process and Tasks. *Proceedings of the 100 Seminar of the European Association of Agricultural Economists (EAAE).* Novi Sad 21-23 June, 2007.

European Commission Report (2013). *EU and Albania bilateral relations.* Retrieved from http://ec.europa.eu/agriculture/bilateral-relations/pdf/albania_en.pdf

Food and Agricultural Organization (2006). Retrieved from http://www.fao.org/ag/agp/agpc/doc/counprof/PDF%20files/Albania.pdf

Food and Agricultural Organization (2012). Retrieved from http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/AI_breiefs2012/fao_albania.pdf

Gabeta, A. & Dhimitri, E. (2012). The Problems of the Albanian Agro-Industry through Analysis of Exports – Imports and Competitive Environment (Region of Korca). *Index Copernicus Journals.* Retrieved from http://www.journals.indexcopernicus.com/issue.php?id=9926&id_issue=865024&id_lang=3

Halbrendt, C. C. & Lepczyk, J.F. (2013). *Agricultural Markets in a Transitioning Economy: An Albanian Case Study.* Switzerland: CABI.

INSTAT (2011). *Trade in Albania.* Albania: Albanian Institute of Statistics.

Invest in Albania NGO (2015) Albania's potential. Retrieved from http://invest-in-albania.org/made-in-albania-eggs-exported-for-the-first-time-in-eu-market/

Invest in Albania NGO (2015) Fairs and events. Retrieved from http://invest-in-albania.org/albania-and-kosovo-to-meet-at-fair-of-albanian-agricultural-agro-industrial-products/

Invest in Albania NGO (2015) Fairs and events. Retrieved from http://invest-in-albania.org/minister-of-agriculture-china-a-potential-market-for-agricultural-exports/

Invest in Albania NGO (2015) Investment opportunities. Retrieved from http://invest-in-albania.org/eu-to-support-agriculture-in-albania-by-eur-71-ml-fund-during-2016-2020/#

Invest in Albania NGO (2015) Reports. Retrieved from

http://invest-in-albania.org/minister-of-agriculture-albanian-farmers-are-applying-the-eu-criteria/

Invest in Albania NGO (2015) Reports. Retrieved from http://invest-in-albania.org/agriculture-products-exports-doubled-in-2015/

Karasavvoglou, A.G. (2011). *The Economies of the Balkan and Eastern Europe Countries in the Changed World*. London: Cambridge Scholars Publishing.

Koomen, E. , Stillwell, J., Bakema, A., & Scholten, H.J. (2007). *Modelling Land-Use Change: Progress and Applications*. New York: Springer.

Lampieti, J., Lugg, D.G., Van der Celen, P. & Branczik, A. (2009). *The Changing Face of Rural Space: Agriculture and Rural Development in the Western Balkans*. World Bank Publications.

Pawson, R. & Tilley, N. (1997). *Realistic Evaluation*. London:Sage.

World Bank (2014). *Property Rights Just a 'Click' Away*. Retrieved from http://www.worldbank.org/en/results/2014/06/24/albania-property-rights-just-a-click-away

Xhajanka, E. (2015). Panariti signs agreement on opening new FAO office in Albania. *Albanian Telegraphic Agency*. Retrieved from http://www.ata.gov.al/en/panariti-signs-agreement-on-opening-new-fao-office-in-albania-238930.html

## APPENDIX

Table A.1: Education of farm holder

| Nr. No. | Qarku Region | Niveli arsimor - Level of education | | | | |
|---|---|---|---|---|---|---|
| | | Fillore & 8-vjecare / Primary & Lower Secondary school | E Mesme / Upper Secondary School | | Universitet / University | |
| | | | Agricultural | Other | Agricultural | Other |
| 1 | Berat | 21580 | 3070 | 1797 | 0 | 39 |
| 2 | Diber | 17525 | 3777 | 3114 | 122 | 1183 |
| 3 | Durres | 19839 | 11894 | 0 | 486 | 0 |
| 4 | Elbasan | 20445 | 10558 | 0 | 220 | 0 |
| 5 | Fier | 26480 | 26637 | 7 | 2646 | 239 |
| 6 | Gjirokaster | 6258 | 4271 | 0 | 622 | 8 |
| 7 | Korce | 20986 | 7931 | 0 | 841 | 0 |
| 8 | Kukes | 5992 | 4065 | 0 | 49 | 0 |
| 9 | Lezhe | 15321 | 7109 | 252 | 0 | 236 |
| 10 | Shkoder | 25719 | 6231 | 5754 | 952 | 304 |
| 11 | Tirane | 17596 | 11419 | 2256 | 480 | 301 |
| 12 | Vlore | 21667 | 6138 | 147 | 1047 | 0 |
| **Gjithsej** | | **219409** | **103102** | **13328** | **7466** | **2311** |

Source of information: Ministry of Agriculture, Food and Consumer Protection

Table A.2: Farm size

| | | | | | | **Ha** | |
|---|---|---|---|---|---|---|---|
| **Nr. No.** | **Qarku Region** | **2000** | **2005** | **2008** | **2010** | **2011** | **2012** |
| 1 | Berat | 1.28 | 1.43 | 1.38 | 1.37 | 1.36 | 1.20 |
| 2 | Diber | 0.48 | 0.55 | 0.68 | 0.75 | 0.71 | 0.72 |
| 3 | Durres | 1.08 | 1.02 | 1.07 | 1.14 | 1.13 | 1.16 |
| 4 | Elbasan | 0.90 | 1.02 | 1.02 | 1.08 | 1.25 | 1.26 |
| 5 | Fier | 1.49 | 1.55 | 1.68 | 1.64 | 1.70 | 1.52 |
| 6 | Gjirokaster | 1.22 | 1.28 | 1.28 | 1.23 | 1.11 | 0.95 |
| 7 | Korce | 1.24 | 1.37 | 1.33 | 1.45 | 1.31 | 1.27 |
| 8 | Kukes | 0.44 | 0.54 | 0.53 | 0.62 | 0.71 | 0.60 |
| 9 | Lezhe | 0.92 | 0.94 | 0.91 | 0.93 | 0.89 | 0.89 |
| 10 | Shkoder | 0.85 | 0.85 | 0.90 | 1.14 | 1.28 | 1.11 |
| 11 | Tirane | 1.25 | 1.01 | 1.13 | 1.13 | 1.28 | 1.20 |
| 12 | Vlore | 1.12 | 1.33 | 1.34 | 1.27 | 1.42 | 1.60 |
| **Gjithsej** | | **1.04** | **1.10** | **1.15** | **1.21** | **1.26** | **1.20** |

Source of information: Ministry of Agriculture, Food and Consumer Protection

Table A.3: Average working days on the farm

| Nr. | Qarku Region | Dite pune: Working days on Bujqesi/ Agriculture | Pemtari/ Orcharding | Blegtori/ Livestock | Totali/ Total | Dite jashte ferme/ Working days outside farm |
|---|---|---|---|---|---|---|
| 1 | Berat | 110 | 90 | 105 | 305 | 107 |
| 2 | Diber | 244 | 21 | 206 | 471 | 80 |
| 3 | Durres | 186 | 57 | 200 | 443 | 403 |
| 4 | Elbasan | 242 | 77 | 266 | 586 | 33 |
| 5 | Fier | 149 | 66 | 97 | 312 | 140 |
| 6 | Gjirokaster | 101 | 43 | 207 | 350 | 247 |
| 7 | Korce | 180 | 58 | 166 | 405 | 98 |
| 8 | Kukes | 133 | 43 | 255 | 431 | 179 |
| 9 | Lezhe | 96 | 36 | 150 | 281 | 177 |
| 10 | Shkoder | 99 | 17 | 146 | 263 | 50 |
| 11 | Tirane | 256 | 92 | 215 | 563 | 249 |
| 12 | Vlore | 194 | 90 | 192 | 476 | 114 |
| **Gjithsej** | | **170** | **60** | **173** | **403** | **149** |

Source of information: Ministry of Agriculture, Food and Consumer Protection

Table A.4: Farm expenditures for agriculture

000/ lek

| Nr. | Qarku Region | Shpenzime per: /expenditure for Plugime/ Plow | Mbjellje/ Sowing | Korrje shirje/ Harv.& thresh. | Transport/ Transport | Uje/ Water |
|---|---|---|---|---|---|---|
| 1 | Berat | 208769 | 81613 | 78111 | 49530 | 35729 |
| 2 | Diber | 129781 | 73608 | 49401 | 24407 | 27350 |
| 3 | Durres | 218537 | 131121 | 159949 | 69216 | 12404 |
| 4 | Elbasan | 340902 | 145638 | 125304 | 49042 | 102606 |
| 5 | Fier | 540624 | 192174 | 294529 | 217488 | 95451 |
| 6 | Gjirokaster | 63321 | 23367 | 34719 | 22762 | 4372 |
| 7 | Korce | 289641 | 129909 | 154614 | 51255 | 53310 |
| 8 | Kukes | 42464 | 17770 | 13104 | 10545 | 3343 |
| 9 | Lezhe | 141323 | 66430 | 76242 | 30401 | 6092 |
| 10 | Shkoder | 232764 | 59613 | 39086 | 42662 | 9819 |
| 11 | Tirane | 243416 | 117431 | 155583 | 108335 | 87640 |
| 12 | Vlore | 396670 | 161509 | 158263 | 79551 | 215006 |
| **Gjithsej** | | **2848211** | **1200183** | **1338905** | **755193** | **653121** |

Source of information: Ministry of Agriculture, Food and Consumer Protection

Table A.5: Farms with crops

| Nr. | Qarku Region | Numri i fermave / Number of farms | | | | | |
|---|---|---|---|---|---|---|---|
| | | Bime Arash/ Field Crops | Me grure/ With wheat | Me miser/ With maize | Me fasule/ white beans | Me perime/ With vegetable | Me patate/ With potateos |
| 1 | Berat | 26075 | 13486 | 13045 | 6623 | 12568 | 5174 |
| 2 | Diber | 25618 | 7956 | 22305 | 22329 | 22156 | 6323 |
| 3 | Durres | 30630 | 15496 | 19214 | 16776 | 25257 | 5399 |
| 4 | Elbasan | 32439 | 24550 | 19349 | 12558 | 20609 | 9366 |
| 5 | Fier | 53740 | 34683 | 24363 | 9571 | 29463 | 3568 |
| 6 | Gjirokaster | 11265 | 3400 | 2784 | 1956 | 9324 | 3090 |
| 7 | Korce | 30106 | 24253 | 15735 | 17545 | 16259 | 9187 |
| 8 | Kukes | 10195 | 3739 | 7145 | 6603 | 9583 | 735 |
| 9 | Lezhe | 23170 | 11172 | 11508 | 7901 | 15723 | 2419 |
| 10 | Shkoder | 39434 | 9302 | 24497 | 13073 | 36563 | 14186 |
| 11 | Tirane | 31428 | 8944 | 18505 | 15145 | 24621 | 2975 |
| 12 | Vlore | 28875 | 12004 | 11397 | 9749 | 18622 | 8296 |
| **Gjithsej** | | **342974** | **168984** | **189847** | **139828** | **240747** | **70717** |

Source of information: Ministry of Agriculture, Food and Consumer Protection

Table A.6: Structure of field crop plantings in 1.000 ha

| Nr. | Emertimi | 2005 | 2006 | 2009 | 2010 | 2011 | 2012 | Description |
|---|---|---|---|---|---|---|---|---|
| 1 | Drithra | 147.7 | 143.1 | 146.1 | 145.7 | 147.7 | 143.0 | Cereals |
| | Grure | 82.4 | 77.2 | 82.8 | 73.9 | 69.2 | 73.2 | Wheat |
| | Miser | 48.4 | 49.0 | 47.6 | 54.2 | 61.2 | 53.5 | Maize |
| | Theker | 1.5 | 1.3 | 1.1 | 1.1 | 1.5 | 1.3 | Rye |
| | Elb | 1.5 | 2.2 | 1.7 | 2.5 | 2.8 | 2.4 | Barley |
| | Tagjira | 13.9 | 13.4 | 13.0 | 14.0 | 12.9 | 12.5 | Oats |
| 2 | Perime bostan | 32.5 | 30.8 | 30.3 | 30.8 | 30.6 | 31.0 | Vegetab.melon |
| 3 | Patate | 10.1 | 9.5 | 9.1 | 9.0 | 9.5 | 9.3 | Potatoes |
| 4 | Fasule | 16.1 | 15.1 | 14.0 | 13.7 | 14.4 | 14.6 | Beans |
| 5 | Duhan | 1.5 | 1.8 | 1.2 | 1.2 | 1.2 | 1.3 | Tabacco |
| 6 | Lule dielli | 1.1 | 1.3 | 1.2 | 1.3 | 1.5 | 1.4 | Sunflower |
| 7 | Soje | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | Soybean |
| 8 | Foragjere njoma | 191.0 | 195.0 | 200.0 | 202.0 | 204.0 | 208.9 | Forage |
| | Siperf.e mbjelle | 400.4 | 396.8 | 402.3 | 404.0 | 409.0 | 409.8 | Area planted |

Source of information: Ministry of Agriculture, Food and Consumer Protection