



ISSN NO. 2320-5407

Journal homepage: <http://www.journalijar.com>
Journal DOI: [10.21474/IJAR01](https://doi.org/10.21474/IJAR01)

**INTERNATIONAL JOURNAL
OF ADVANCED RESEARCH**

RESEARCH ARTICLE

Development of Agribusiness Banking in Albania.

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Manuscript Info

Manuscript History:

Received: 18 May 2016
 Final Accepted: 22 June 2016
 Published Online: July 2016

Key words:

Agriculture, credit access, banking industry, development.

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Abstract

The idea of Sustainable Agribusiness goes back to the agrarian society, but even that it is still an actual term used as a topic of debate in government reforms, banks strategies and other institutional meeting rooms. Policies and products aimed at promoting the expansion of agricultural markets and facilitating agriculture productivity growth should take into account that, in a world dictated by value chains and the rules of globalization, competitiveness is the condition for survival. The purpose of this research is that by evidencing the challenging that agribusiness sector faces in Albanian country, we evaluate the new possibilities of banking product adaptation in sustaining these target of customers.

The results of the article suggest for implementation of new incentives and policy decision making in the banking sector, in promoting small farmer agricultural productivity, needed to encourage longer-term income growth.

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Methodology:

This paper evaluates the importance of agriculture sector in the Albanian economy and the impact of banking sector in development of this sector, based on primary and secondary data.

Analysis is organized in two main pillars/parts:

- (1) First part presents the theory framework of the state problem. Through the peer review there are presented general facts about the challenges that agriculture sector faces actually. A qualitative analysis based on secondary data is present in this first part of the paper. It is worth mentioning that these data are publications of the government institutions like Ministry of Agriculture, Rural Development and Water, INSTAT and in other cases are used the data announced by World Bank, FOA2etc.
- (2) The second part presents the factors that individual farmers and/or agribusiness owners rank as the major factors which affect directly their activity. The data presented in this section are primary ones and the methodology used to obtain such data was the questionnaires. To realize the study a sample of 50 farmers with a bank history was chosen. The questionnaire is conducted in areas with the highest concentration of the agricultural activity like cities of Koplik, Fier, Durres. The respondents are selected randomly with the purpose of achieving a representative result.

As regard to the questionnaire, the questions were structured into three main pillars. (i) First pillar comprised questions about the demographic profile of the respondent to understand their background, education level and to evaluate their activities. (ii) The second pillar comprised questions about the challenges that respondents face in their activity and had the purpose to evaluate the farmer's perception about the factors that they rank as contributor of their situation giving also the opportunity to estimate their satisfaction level of the benefited services. (iii) The third pillar of the directed questions had the purpose to assess the knowledge or information level of the farmers about the legal framework, credit product offered by the banking sector and on the supporting services financed by

the public authorities. Based on the primary data obtained by the survey, were identified 7 factors that seem to have the major impact in the farmer's activity decision making. As was mentioned above, these factors are presented and analyzed in the second part of the paper, attended in the same time even with a descriptive and comparative analysis with the Western Balkan countries experiences.

Furthermore, it is worthy to be mentioned that there were some limitations or assumption in the development of this article, such as the accuracy of the secondary data presented. It was supposed that the data announced by the government institutions were correct and they reflect the reality. The majority of the farmers operate in informality and in different geographically distributed areas, restricting the access to a greater sample in generating the primary data. As per the stated limitation, it is assumed that the obtained results from the questionnaires and data made available by the Albanian Farmers Associations are representative results with an agreed level of error of 10%.

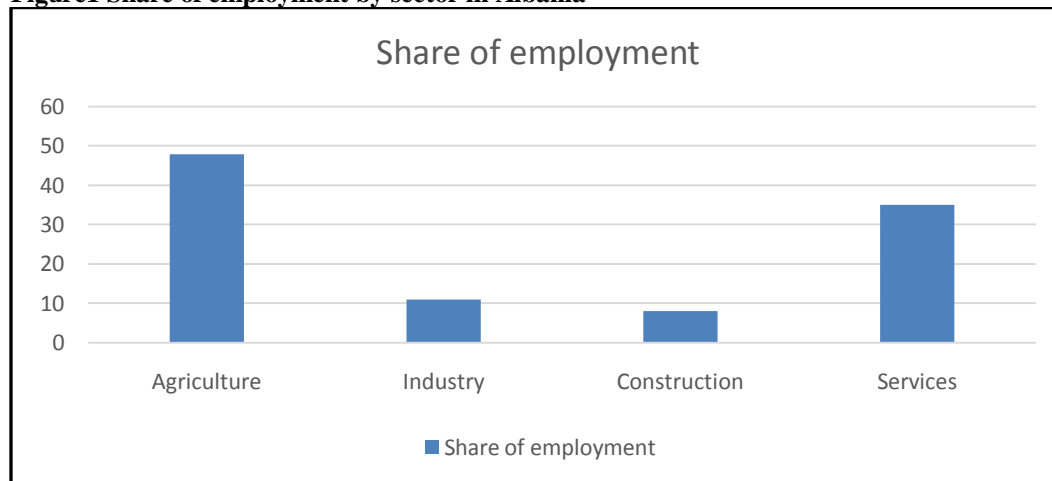
An Overview of Agriculture Sector in Albania:-

Albanian economy is classified in the group of emerging economies, characterized by economic problems, administrative and legislative gaps which urge to be consolidated. In terms of financial development, the economy of this country can be classified in the second phase of development where the main role in the financial market is played by banking institutions and where is not present genuine financial market with such actors like brokers, stock, joint investment funds etc.

The bank sector being the main important factor in the financial market has obviously a key role in developing and promoting the economic prosperity of the country. In Albanian market operate 16 banks licensed by Bank of Albania. In a country with a population of about 3 million people, the presence of 16 banks, located in all the area, seems to be sufficient to fulfill the capital demand of the market. In fact, as will be showed further during the paper, the relationship between the banking sector and the market is not consolidated, creating a gap between market segments where funds are channeled and segments where these funds should be channeled, as is the case of agriculture sector. Thus, from 16 banks which operate in the market, actually only one of them is oriented in agriculture, facilitating the credit access of this sector. Reasonably the readers may raise the question: "Does this orientation of banks derive from the structure and requirements of the market?" –the response is "no".

The geographical position of this country creates opportunities for agriculture development, by making the existence of this sector a competitive advantage compared to other countries of the Western Balkans. Despite the development history of the Albanian economy, agribusiness sector still could be considered as under development, facing many major challenges and problems. The importance of this sector is reflected not only in its percentage in Gross Domestic contribution, generating about 25 percent of GDP (INSTAT 2015) but also it remains the main job provider in Albania. Close to half of the employed (48 percent in 2015) work in agriculture.

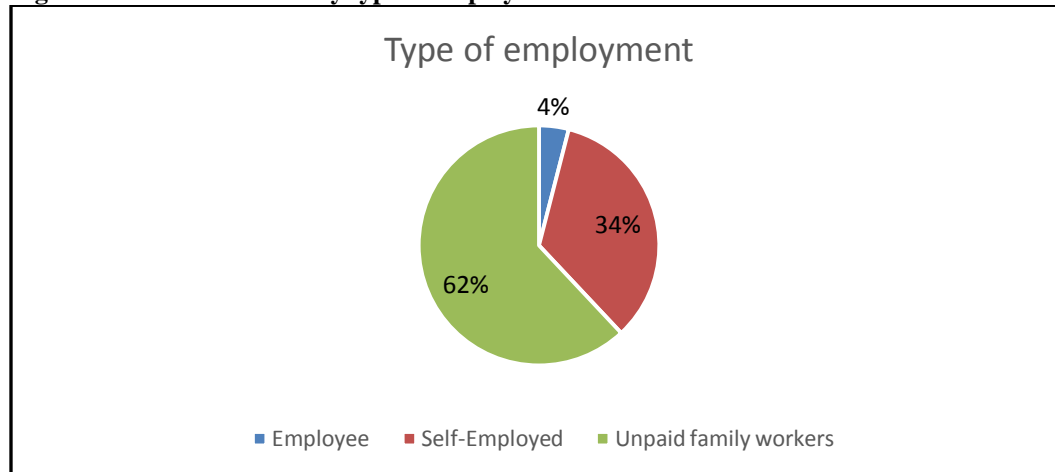
Figure1 Share of employment by sector in Albania



Source: INSTAT 2015

Based on the chart can be noted that the agricultural sector is an important sector that affects not only the macroeconomics indicator of an economy but also the prosperity of the Albanian families and of course indicates the success of the political reforms. Even though this is an important sector the present and future introduce challenges for the development of this sector in Albania. There are too many inherited deficiencies. The quality of employment is very low in the agricultural sector. Among the overall employed population of Albania in this sector, a large share corresponds to either unpaid family workers (62 percent) or to the self-employed (34 percent).

Figure 2 Share of workers by type of employment

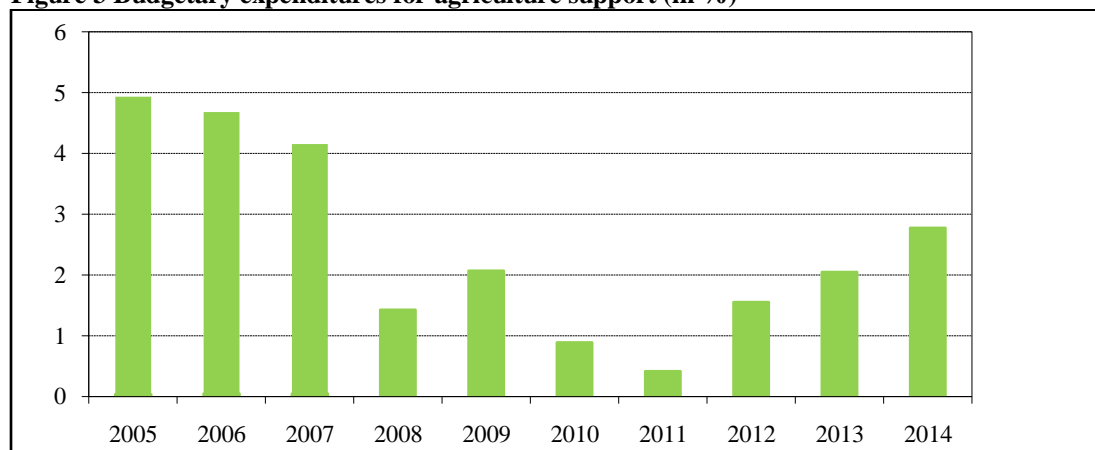


Source: INSTAT 2015

Furthermore, based on the data collected by INSTAT more than half of the self-employed (54 percent in terms of labor market) work in agriculture and that means that self-employment has captured the agricultural activities in the country. The figure above shows that the employee rate in this sector is about 4 % but it is worth to be mentioned, that also this small share represents a lot of challenges, one of which is the informal work. Based on the data given by Tax Authority more than 60% of the employee workers in agriculture sector work in informality condition and the other part engaged in this sector as self-employed or family workers remains largely unaccounted and not integrated with the formal economy. The agricultural workforce is largely unskilled, with almost three quarters of workers having primary education or less, and almost all (98 percent) having secondary education or less (INSTAT, 2015).

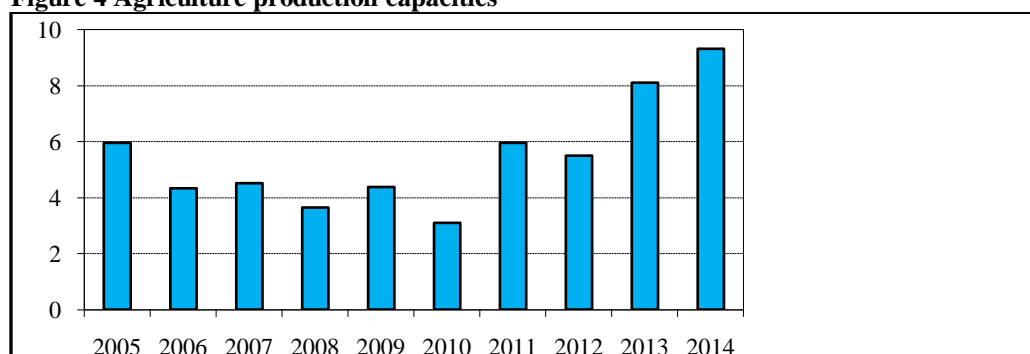
An interesting fact to be mentioned here is that in Albania markets, social and economic changes – urbanization and industrialization – has obligated the younger to move away from agricultural work into white collar jobs, putting further pressure on the industry's supply side response. Another factor that explains the structure of labor market in this sector is the fact that agriculture land is fragmented and it is mainly used by small agriculture producers as the land owners, the locations of available water for irrigation are frequently inconvenient and agriculture producers are not trained to use modern irrigation systems. The farmers consider the irrigation as important not only to increase yield but also improve quality of agriculture products, increase employment and income through export as well as to strengthen security of food supply.

Regarding the Agricultural policy development in the country, the budget in Albania has always been subject to debate for the modest figures compared with the expectations. During the period 2013-2014, the budgetary support to agriculture in the country experienced minor changes. During 2013, it was observed a decrease of the overall budgetary support, followed in 2014 by an increase achieving approximately the same value of 2012 (see Figure 3). During 2014, the total budgetary support amounted to Euro 22.9 Mio. Despite the uprising but highly fluctuating trend during the period 2006-2011, the last three years the overall budgetary support is anchoring on similar funding values of those recorded during the year 2005.

Figure 3 Budgetary expenditures for agriculture support (in %)

Source: Agricultural Policies Measures Database, 2015

Regarding the level or capacity of production in this sector the figure below presents the trend of production based on the potential capacities of this sector to produce during a year. The optimal production capacity is considered the scale of 10% in national level, taking in consideration the high level of informality that exist in Albania.

Figure 4 Agriculture production capacities

Source: Agricultural Policies Measures Database, 2015

Referring to the figure 3 and 4, can be noted that exists a correlation between the budgetary expenditure levels with the agriculture production capacity. Thus, during the year when the public expenditure for this sector has been high, the production capacity has also been improved and vice versa. Low lobbying power in agriculture sector, low overall budget values and restricted credit access possibilities make the production in the Agriculture sector in Albania lower compared to other countries.

In the last three years the public funds in supporting the agriculture production has been reduced on the pretext that these funds will be re-allocated in supporting the collectors and processors, who have received during 2015 almost 80% of the funds intended to support agriculture. This support has been received by no more than 50 entities involved in collection and trade of agro products.

Before representing a more detailed treatment of issues related to the financing of this sector, it is considered important to introduce the concept of the farmers and the organizational forms by the Albanian legislation.

Thus, a farmer in Albania can be anyone who conducts a registered or unregistered activity in the agriculture sector and owns an agricultural land in the rural areas. Based on the actual banking regulatory framework¹, a farmer or agribusiness can be financed by banks only if he is formally registered in the agricultural sector. According to the

¹This is based on the regulatory framework of the 5 top banks which operate in the Albanian market.

- Agricultural land minimum **- 10 Hectares (Ha)**
- Greenhouses minimum **- 5 Dynym²**
- Possess minimum **- 10 Head of Cattles**
- Pays regularly the Social Security contribution

The Albanian experts in the agricultural fields think that greater opportunities will be provided for this sector when Albania obtains the status of EU candidate country which, besides other advantages, will make it possible for the Albanian agribusiness to be supported by substantial funds, which will directly influence economic growth. But these opportunities are associated with challenges for the fulfillment of business profitability criteria. For the businesses to become beneficiaries of these funds, a set of essential adopted conditions must be met, in terms of the legal aspect of the business, technical competence, environmental protection standards, food security, etc. Also, the use of EU funds is closely linked to the existence and operation of the banking system in agriculture and livestock, since the main rule of the EU is refunding of the implementation of winning projects of IPARD⁴. Even in this case private banking sector is precisely the one that must show efficiency in terms of capital supply in the agricultural sector and enable maximum absorption of the funds allocated by the EU.

Reform and development of the Albanian banking system aimed supporting various sectors of the economy through banking products and services. Requests for loans from private farmers to finance inputs (fertilizers, seeds, pesticides, etc.) and mechanized equipment have been and continue to be large and growing, but the credit access has been continuously tight. As it is noted by Gabriel A. Fuentes (1996) a characteristic of the rural financial market is the information asymmetry. Thus in a credit transaction borrower knows his willingness and ability to repay the loan, on the other hand the lending institution do not know the real intentions of the borrower or the probability that the borrowers can change the opinion/financial situation/intention after receiving the loan. In this situation, the risk is high. By the other side another problem that increases the information asymmetry impact in a financial agreement is the low rate of return for the farmer's economy, impacting in their ability to repay the loan on time. Further the collateral is another requirement that affects the credit access of the agribusinesses. As in the other developing economies, the collateral requirement of the financial institutions for the agro loans has been high, because of transitions factors like: deficiencies in property rights, lack of land markets, high inflation, uncertainty of the agriculture market etc. Often, banks refused the agricultural land as collateral even when the proprietorship is well defined, because of deficiencies in the land market, affecting in the collateral marketability. In literature, as a political tool of credit access is suggested the development of specialized banks focused on the agriculture sector. That was a practice present during 1990 until 1996 a specialized institution in agricultural finance such as Agrarian Commercial Bank (ACB) has been operating in the Albanian banking market. This was a financial institution which did not work properly in support of agriculture and the inefficiency in its lending operations can be expressed in two ways:

⁴ Instrument for Pre-Accession Assistance in Rural Development

Firstly, due to the inability of the banks to meet the demand of small farmers for loans, ACB operated on commercial principles, and the cost of credit management, for this large group of small customers has been too much high. Also, the level of interest rates at this time has made the cost of credit high for the customers.

Secondly, during its activity the ACB has deviated from lending activity in the agricultural sector. Referring to the data provided by Bank of Albania, 2013 was noticed that lending to other sectors (such as trade of goods, buildings, etc.) has occupied a considerable share of about 64% of the lending portfolio.

After the crisis that the country passed during 1997-1998 the negative tendencies in agribusiness development were increased. The confidence in banking institutions was diminished after the experienced losses caused by the pyramid schemes during these years. Thus, based on a survey⁵ conducted by for the period from 1997 to 2004 in 36 cities of the country was revealed that from 1648 official farmers only 2% of them had been credited from the financial institutions which operated at that time.

The period after 2005 was characterized by the expansion of the private commercial banks by increasing significantly the lending rate in the economy. Macroeconomic stability, increased security in the country and the improvement of the investment climate were factors that increased the interest of banks to lend the economy, focusing mostly on medium and large business lending. The post crisis period was characterized by a decrease in the lending level as a protector measure undertaken with the directive of Bank of Albania.

Despite the taken measures, effects of the crisis were felt highlighting the financial problems of some banks operating in the Albanian market, among them was Pro Credit Bank. As result of its financial situation and in response to the market conditions, this bank reorganized its lending strategy by being oriented in agriculture sector. Actually, it remains the only bank with genuine orientation towards this sector, having as result the highest portfolio of agro loans.

Based on the history of banking development and taking in consideration the actual challenges that the agricultural sector is facing, seems that credit restrictions has affected or has had impact in increasing the informality in this sector, because based on estimation made by tax authority and INSTAT, the individual farmers (who represent the majority of the farm economy) unable to secure loans from commercial banks, has used additional informal financial resource, borrowing from moneylenders, friends or other relatives, rejecting the concept of the time value money, which is the base of development of the financial market. The truth is that the agriculture sector has lagged behind and continues to be the orphan child, used as an excuse whenever there was any need for fund allocation form the government and particles as to keep the spirit alive.

Actual Banking Products for Agribusiness:-

This section gives an overview of the actual banking products offered in the Albanian market in support of the agribusinesses and farmers. Till now the paper has presented an overview of the agro sector development and financial challenges, but to understand the real problems that this sector faces it is worth to know more about their actual credit opportunities. In the analyses are included two banks, ranked in the Top 5 list of the banking sector, and which actually offer credit product in support of the agro sector. In respect of the confidentiality principle, the real name of the banks will not be presented in the paper but they will be identified Bank A and B respectively. Following are presented the general characteristics of the credit product offered by each bank.

BANK A – AGRO LOAN PRODUCT

The segments of the product are:

i) Agro Special Loan

Loan Range	:	1000 –10,000USD
Max Loan Maturity	:	60 Months
Loan Repayment	:	Seasonally / Quarterly / Semiannually
Grace Period	:	Up to 12 Months (On case basis)
Collateral	:	Personal Surety ship

⁵Source of the survey result:

“Buletini_ekonomik_Vellimi_4_Nr_1_Institucionet_financiare_rurale_dhe_financimi_i_ekonomive_fermere”, Drini Salko.

Third party guarantee

Customer Eligibility Criteria

- Registered or unregistered farmers
- Should have at least **2 seasonal** sales Agricultural experience
- In case of any previous loans – should have good repayment history in banking system
- Existing Operational Customer
- Payment Capacity should be less or maximum 70%

ii) Agro Support Loan:

Loan Range	:	10,001 – 50,000 USD
Max Loan Maturity	:	96 Months
Loan Repayment	:	Seasonally / Quarterly / Semiannually
Grace Period	:	Up to 12 Months (On case basis)
Collateral	:	50% Real Est. Mortgage or pledge or both

Customer Eligibility Criteria

- Legally Registered as Physical Person or Sh.p.k.
- Should perform in Agribusiness or related activity;
- Shall be within the covered of Branches Network
- Should have at least **2 seasonal** sales Agricultural experience
- In case of any previous loans – should have good repayment history in banking system

iii) Agro Development Loan

Loan Range	:	50,001– 250,000 USD
Max Loan Maturity	:	96 Months
Loan Repayment	:	Seasonally / Quarterly / Semiannually
Grace Period	:	Up to 12 Months (On case basis)
Collateral	:	50% Real Est. Mortgage and 20% Pledge of Equip. Bank Policies

Customer Eligibility Criteria

- Legally Registered as Physical Person or Sh.p.k.
- Shall be within the covered area of Branches Network
- Minimum **2 years** of Operating
- In case of any previous loans – should have good repayment history in banking system
- Credit Rating Min CCC

Type of Activity to Finance

- Agricultural businesses
- Agricultural processors
- Agricultural storage providers, etc.

- Individuals & businesses with incomes from farming, agriculture, orchards, fruits, vineyards, poultry, agricultural mechanics, etc.

Required Document:

- Farmer Code/NIPT
- ID card and Family Certificate
- Declared Income
- Activity Registration legal document for the Agro Support Loan
- Investment Loan

Cost of borrowing: The interest rate varies Minimum 8% for the Agro Development Loan to Maximum 17% for the Agro Special Loan.

BANK B – START UP AGRO

Amount: 1000 – 7000 USD

Financing:

- New agribusiness activity
- Growth/development of the existing agribusiness

Pro Alternative Loan- is a loan offered in support of the target group which is restricted to the credit opportunities as per the lack of the guarantees:

- For the amount till **40,000 USD** and maturity 3 years there is not required any guarantees.
- For the amount over **40,000 USD** basing and in the activity and in the yearly income there will be flexibility in the guarantees requirement.

Amount in USD	1-3 years	3-5 years	Over 5 years
7000 – 40,000	----	Until 70% pledge	Until 70% pledge Until 50% mortgage
40,000 – 200,000	70% pledge	40% pledge 30% mortgage	50% pledge 50% mortgage

Document:

For the amount 7000 – 40,000 USD

- Identification Document
- Certificate from the Local Government that the customer has a farming activity.
- The farmer code/number

For the amount over 40,000 USD

- The same requirement as per above amount but in addition it is required also a License of the activity.

Collateral:

- Pledge (farming machinery, car, vehicle);
- Property (business construction, home, land);
- Both pledge and property.

Loan repayment:

- Monthly payment
- Seasonally payment in accordance with the business income period.
- Grace period
- One payment when the loan is disbursed and the other at the end of the maturity.

Maturity: 6 months to 10 years

Target group:

All the individuals who want to invest in the below activities like:

- Agriculture
- Agro industry
- Fishing
- Farming machinery
- Agricultural storage providers.

Cost of borrowing: Interest rate variate from 7% to 17% based on the maturity and lending amount.

Based on the presented credit condition it seems that the banking sector offers good lending opportunities. However, the share of agro loan in the total credit portfolio of the two banks for the year 2015 it is about 1,25%⁶, still very low especially for the bank A where the share of the agro loan in it lending portfolio is less than 3%.

⁶The data have been published during the meeting developed between Ministry of Agriculture and EBRD, developed in January 2016.

In summary, the main factors that could have a negative impact in agriculture sector lending are

- Lack of institutional capacity of commercial banks, because of the high costs that small loans have. Based on the information presented during the first part of the paper about 95% of the farmers that operates in Albanian market are individual farmers and not structured agribusinesses, as result they are potential credit customer of the small loans. Further, banks consider the agriculture economies as small entrepreneurs and therefore as costly to be lender.
- The small size of farms and their insufficient income, inhibit the absorption of formal investments in the agricultural sector and in sectors linked to it, thus becoming an obstacle to their credit.
- High interest rates are another limiting factor, interest rate ranging from 15% to 21%.
- The banks did not engage in the agriculture lending as they consider the farms activity as unsustainable and unobtainable. This is also consequences of the migration tendencies of the rural farmer's families towards the urban areas and because of the external migration of young people constituting the main power work in this sector.
- The farmers deal with the lack of appropriate collateral to fulfill the requirement of the banks. Malfunction of the land market is a relatively large obstacle for lending, because the land still is not preferred to serve as collateral.
- The lack of a banking strategy on the study and segmentation of the market depending on the economic sector with the highest priority in a certain area has limited the possibility for financing certain activities. This means that if in Durres the developed sectors are tourism, construction and transport, then the bank should expand its line of products in this sector, and the opposite in case of Lushnja area where the main sector is agriculture. The lack of such a strategic reorientation in the market has led to the creation of a gap between banking supply and market demand, which seems to be longer existent in the agricultural sector.

Descriptive Analysis:-

The result of the conducted questionnaire evidenced 7 factors that seems to have greater impact in the farmer activity, influencing in a negative way. The analysis of the identified factors is presented below:

Starting a Business:-

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. We know that in theory an additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Actually, the level of formal agribusiness which operates in Albanian market is 4%⁷, a very low concentration. The problem consists in the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. The procedures in force include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities, registration which includes name verification or reservation, notarization; post registration which consists in social security registration for the employers etc.

Time required to complete each procedure is another concern for the business. From the verification done based on the Albanian laws and after conducting also with public institution regulation was noticed that without including the time spent gathering information, to start a procedure it is needed one day (2procedures cannot start or at least is difficult to start on the same day).Procedures that can be fully completed online needs about 1/4 of the days.

Cost required completing each procedure and the requirement to deposit in a bank or to declare in a notary declaration, before registration or within 3 months, the minimum of the capital required are considered as very difficult to be fulfilled by the agricultural entrepreneurs.

To be clearer, let's assume that a new business is going to start up in the agriculture sector in an agricultural city located in the north of Albania. The business will be organized as a limited liability company, 100% domestically owned with five owners, none of whom is a legal entity. The number of the employers will be about 10 employees, all of them domestic nationals, whose will perform general commercial and agricultural activities. The business is not qualified for any special benefits, and about the ownership it has leased the agricultural land, so the business shareholders are not a proprietor of the real estate.

⁷ It is referred to the agribusinesses classified as SME.

Albanian legislation provides that to startup a business like this it is required to fulfill 6 procedures which take 5.50 days each of them, with a required cost of 10.40% of income per capita for each of the shareholders and with a required paid-in minimum capital of 10% of the foundation capital.

Based on the last data-s of World Bank (January 2016) Albania stands at 58 in the ranking of 189 developing economies on the ease of starting a business. Interesting is the fact that Macedonia a neighboring country populated by more than 40% from Albanian citizenship is ranked the 2nd.

Dealing with Construction Permits:-

The farmers emphasize that to develop a business in the agriculture sector the logistic assets are very important. There will be the need for a warehouse to store the products or to house the livestock. The last regulation of construction has put a lot of restriction which makes the process excessively costly in time and money. The practice has shown that in many cases, to pass the inspections or even more to build illegally, the builders have paid bribes, by leading so to informality and developing the concept of “dead capital”. The table below displays a summary about the required procedures.

Table 1 Procedures to deal with a construction permits

Procedures to legally build a warehouse	Time required	Evaluated Cost
<ul style="list-style-type: none"> - Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates - Submitting all required notifications and receiving all necessary inspections - Obtaining utility connections for water, electricity and sewerage - Registering the warehouse 	More than 65 days	1% of the construction cost

Source: Agency for Legalization, Urbanization and Integration of Informal Areas and Constructions

The Proprietorship Problem:-

After the '90s the Albanian society was characterized by massive internal migration which lasted for several years. The massive migration combined with the lack of a consolidated legislation on private ownership and the right to property led to the development of a chaotic urbanization at the base of which lies the problems with the right of property ship. Ensuring formal property rights is fundamental, and an effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance by impacting the credit worthiness of the farmers.

Taking in consideration that over than 45% of the registered agribusinesses have earned the property ship after purchasing the agricultural land, the full sequence of procedures necessary for a business to purchase property from another subject or person and transfer the property title to the buyer's name requires more than 30 days and costs 10.20% of the property value⁸. In the Albanian law the transaction is considered complete when it is opposable to third parties and when the buyer can use the property as collateral for a bank loan or resell it. The detailed procedure and cost for the property ownership are presented in the table 2 at Appendixes, what is worth to be emphasized is that in some of the procedures cited there are requirements of the banks when the farmer apply for getting a credit leaving as collateral a real estate such as land or building.

Table 2 .Summary of Time, Cost and Procedures for Registering Property in Albania

No	Procedure	Time in day	Cost in USD⁹
1	The seller obtains ownership title certificate	10	46

⁸Calculation are made based on the information taken from Real Estate Registration Office

⁹For study purpose the exchange rate of USD/ALL is supposed to be 1.

2	The Buyer verifies the status of the property at the Real Estate Property Registry	4	10
3	Comparison of property map with the real situation and position of the land	10	150 – 200
4	Notarization of sale and purchase contract by the notary public	1	The respective notary tariff for the transaction amount are: 1-60 mio is 0.35%; 60.1 -150 mio is 0.3% 150.1-500 mio is 0.28%, 500.1 mio -1 billion is 0.25%; Over 1billion is 0.23 %.
5	Payment of taxes (local and income tax) at a second-tier bank	0,5	USD 20 per square/meter & for transfer of the ownership over the land is 2% of the sale price
6	Registration at the Real Estate Registry Office	10	72

Source: Tirana Immovable Properties Registration Office, 2016

Credit Access:-

After the financial crisis of 2008 the level of lending in the Albanian economy has declined continuously after the growth with 30-40% of the portfolio each year for the period 2000-2008. Some of the reasons that have oriented the fall in the lending level are: the measures taken by the Bank of Albania in the framework of its protective policy from the global crisis effects; the increased level of bad loans at 20.5% of the banking sector portfolio at the end of 2015 and the increased level of collateral execution, which in the actual market conditions, have returned by many cases on a “dead asset” for banks; lack of information on the credit products offered in the banking sector and the strengthening of the legal requirements regarding collateral and their ownership, the latter came as a result of the bad experience of recent years experienced the execution of collateral. Some banks regulation, based and in the law “On the real estate” of 2012, has standardized the collaterals categories excluding the agricultural land located on the second line of national roads, making difficult the communication/access with the national road, occupied by building without building permits, located near the river considering the potential activities in such areas as negative externalities and them located in suburbs and mountains areas

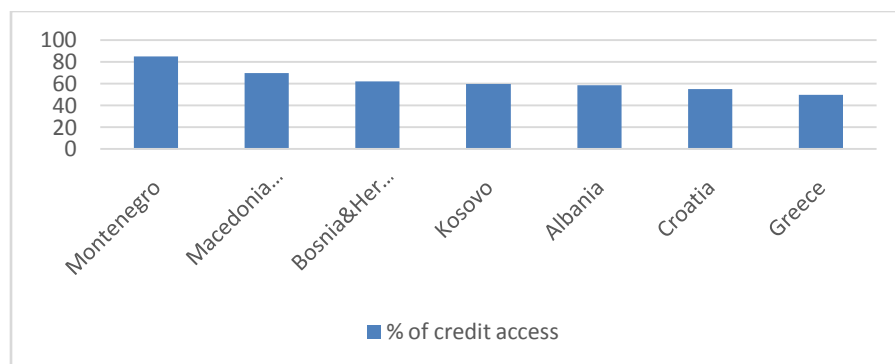
A fact that should be considered is that after the massive internal migration the agricultural lands, localized in accessible lowlands areas, and was used for residential purposes turning them into bear land. Nowadays, the agriculture land is located mostly in suburban areas not easily accessible unlike what is required by banking regulations.

Trade balance of the agriculture product is in deficit as per the great level of import, making this sector of economy not very promising in view of the funding institutions.

Based on a comparative analysis made for the western Balkan countries about the ease in lending to agribusinesses, results show that Albania is positioned at the end in terms of ranking with neighboring countries, even after Kosovo (see figure 5 below). It should be said that lower percentage of agribusiness lending in Greece and Croatia it is not correlated with the restrictions on lending but with the existence of several subsidy funds that the European Union offers to its member countries, reducing the farmers and agribusinesses application for external financing from bank.

Figure 5 Percentage of Agribusiness lending¹⁰

¹⁰ The calculations are based on only in the agribusinesses that have applied at banking sector for a loan product. That means that in case of Albania, result that only 58.8% of the agribusinesses that have applied for a loan have been financed or disbursed, the other part (40%) have been rejected.



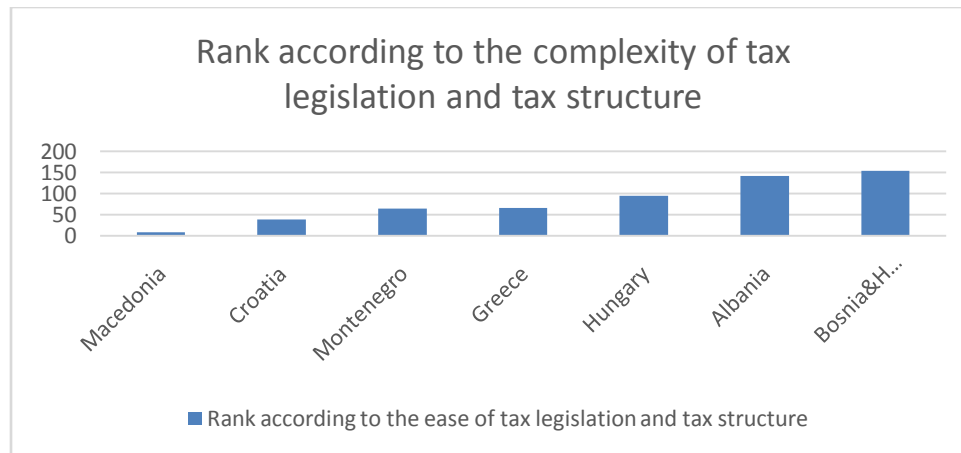
Source: Ministry of Agriculture, 2015

Tax Rates:-

Taxes seem to be an essential factor in the agribusiness decision after the credit access. Literature advice the policymakers to be careful in chosen the level of tax rates, avoiding even the complexity in tax rules. But it seems that still exists a big gap between the theory and what really happen in the practice. Based on the result of Enterprise Survey research conducted by World Bank, 2015 the entrepreneurs in an economy tend to be more present and active when they perceive the tax rates and/or tax administration as less of an obstacle to business. What happens in Albania seems to be different. There does not exist supporting fiscal incentives for new agricultural businesses in their first years of life. Even why the agribusinesses are considered as fragile entrepreneurs in the Albanian economy there is still lack of supporting policies. The fiscal policy package of 2015 required as mandatory that each farmer who produce and sell agricultural and livestock products have to be provided with a NIT (Identification number of the taxpayers) or registered number regardless of the turnover. Even more each farmer or agribusiness had to have an open account in the bank system to channelize their money. So even the monthly incomes of a farmer who sells milk to a milk processing plant are 15-30 USD per month, he should channelize the incomes through banks and he will be taxed for his income. Beyond of all this the market suffers from the unfair competition. Thus, if the farmer sells milk with 0.2USD/liter the milk processing company will sell its product at a price 5 times higher, that means that there are no incentives that support the agribusiness development.

Figure 6 below shows the rank of Albania in comparison with the other west Balkan countries according to the complexity of tax structure and tax legislation. It is noted that Albania comparing with the neighboring countries has been considered with the largest complexity of the tax system, followed by Bosnia-Herzegovina. Based on the actual tax package a formal farmer, the activity of whom is registered in the tax authority as a Physical person the total tax that will charge him at the end of a month will be in total 36,18% (based in the actual fiscal policy).

Figure 6Complexity of tax legislation and tax structure in West Balkan Countries



Source: World Bank Entrepreneurs Survey, 2015

Across Border Trading:-

Albanian market is a small market where the requirements for agricultural products are covered mostly by imports. This is not due to lack of domestic production capacity but as a consequence of trade policies that have been followed over the years. The import is justified by the purpose of increasing the export of the Albanian agriculture product in the European market, but the actual situation with a total trade deficit of 12.3%¹¹ of GDP which testifies the contrary. In 2015, agro-products imports made up about 17% of total imports of goods, while the contribution of agro-products in total exports was 6%. The export to import ratio has been improved from 11.2% in 2005 to 12.2% in 2015, signing an increase in exports more than imports for the given period. Despite recent signs of significant recovery in the agriculture sector growth, trade deficit in agro-food products is very large with an export/import ratio in continues rise (see the figure 7 below).

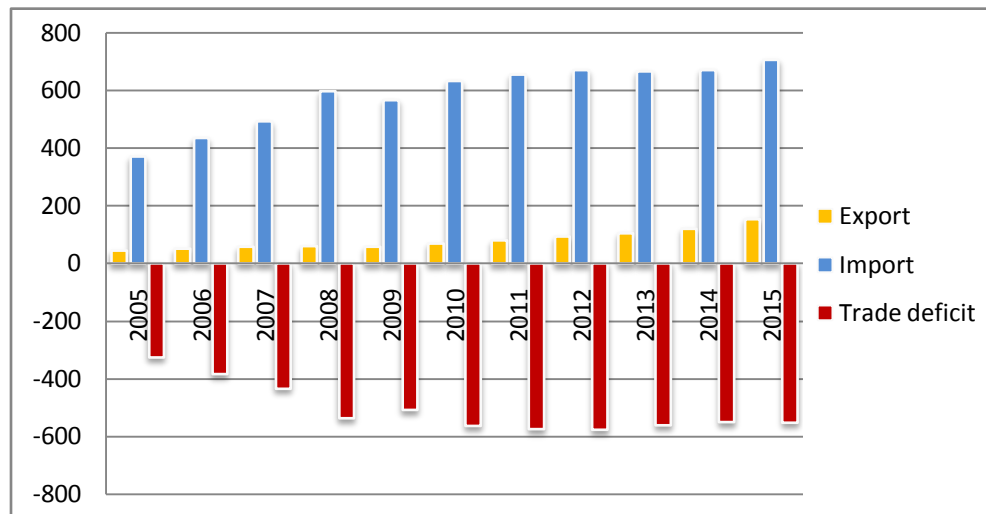
If it is estimated that approximately 12.2% of agricultural production is exported, what happens to the rest?! According to communication with farmers, in recent years they have been under pressure from dealers to sell even below cost. This risks the "erasing" of the farmer volunteers to plant their own land. Albania remains the country with the highest share of agriculture in relation to Gross Domestic Product (GDP) in Europe and nearly of double in the region. One reason is that Albania does not have any other alternative to run away from agriculture by substituting it, as long as other industries are not developed. But there are some factors that do not justify its importance. But as it was mentioned and during the paper, there are some factors that do not justify its importance one of which is the fact that the country continues to be a net importer of agricultural products in the region. In Macedonia, agriculture occupies 10.2% of share in the total GDP; in Montenegro occupies only 10% of GDP; in Bosnia, only 7.8% of GDP; Serbia occupies 9.7%; 11.8% in Ukraine and in Russia only 4%, while in developed countries of the EU, agriculture accounts for about 2% of GDP (INSTAT,2015). While the sector has a dominant position in the Albanian economy by contributing with 20% in GDP, the country continues to import agro products 4.7 times more than exports. Another factor that has contributed in this situation is the taxes applied to the farmers. In the context of formalization of the agricultural production, the individual farmers are not permitted to sell their product if they are not equipped with VAT invoice or a NIPT. As result a part of the production has not been sold or it was sold below cost and as a consequence is added the surface of agricultural land left fallow.

Association of farmers considers the development of agricultural products export in the abroad markets as very difficult due to the procedure costs, not developed infrastructure and manufacturing logistic, time required, lack of the financial funds. Albanian farmers are limited and cannot confront the requirements of foreign markets. All the mentioned factors affect the ability of the Albanian farmers to meet the demand of the European markets. For individual farmers it is difficult to fulfill all the procedures related to export because of the required financial cost, their insolvency and lack of support with funds from the financial institutions to develop the trading across borders. The Albanian banking system in support of international trade offers financing product like letter of credit or letter of guarantee, the cost of which varies depending on the pledge let by the issuing party and on the sum of the LC or

¹¹Based on the BMI-Fitch Report,2016

LG. Despite the fact that financing products of international trade exist in the Albanian market, the percentage of bank funds that have financed international trade in agriculture, in sectoral level is very low less than 1%.

Figure 7 Trade indicators for the period 2005-2015



Source: INSTAT, 2015

Complexity of Legislation & Information Asymmetry:-

Another revealed concern of the farmers was the complexity of the Albanian legislation caused not only as consequences of non-information, lack of the appropriate knowledge to understand them but also as per frequent changes that happens within this framework. The legal framework that exists about the agriculture is very poor and not consolidated. After 1990 there has been approved several laws about the regulation of agriculture sector, some of which are the law no.7501, date 1991, for "The agricultural land", the law no.8318, date 1.4.1998 "For lease of agricultural and forest land, meadows and pastures that are state property", the law no.57/2012 "For the process of passing the ownership right to the beneficiaries of agricultural land owned by former agricultural enterprises", the law on Agriculture and Rural Development adopted in 2007 and the law "On the real estate" of 2012. It is worth to mention that the main legal framework on this sector is the Law on Agriculture and Rural Development adopted in 2007, which regulates the programming of policy measures related to agriculture and rural development, provides for public advisory services for agriculture, research and training, and for setting up of an information database. It also provides the legal basis for the national support schemes, which are set out annually in the National Action Plan and defines the institutions responsible for the implementation of agriculture policy by establishing the Agriculture and Rural Development Agency (ARDA). But none of the farmers have knowledge about these laws and what they provide to them, creating an informative gap which affect in their decision making and in their credit access possibility. The information asymmetry exists not only on the legal framework but also about the credit product offered by the banking sector. Thus, from a survey derived by the AAC (Albanian Agribusiness Council) in an agriculture region like Durres resulted that 9% of the individual farmers, part of this survey, has knowledge about some of the credit product but they were not in the condition to evaluate the real financial cost or to make a cost-profit analysis about their decision making. This lack of knowledge or information is reflected especially in the farmer's decision to be financed by the microcredit institutions as an easy way to get the access of credit funds in short term, since considering the long terms cost which are higher than in case of banking credit funds. As regard to the legislative knowledge, even why in the law on Agriculture and Rural Development it is provided the possibility for public advisory services for agriculture issues, research and training to the farmers such public structures seem to not function properly or at least they operate only in the central region of Albania, in areas easily accessible.

From the study has also been revealed other factors which have impacted the farmers situation like, the high price of the fuel in the Albanian market (regardless the decreases of the fuel prices in the global market, in Albanian market the prices do not change by remaining the highest prices in the region); the continuous fluctuation of the product prices in the market; infrastructure restriction as the lack of drainage investment in the agricultural lands making

agribusiness a vulnerable entrepreneurs to natural disasters. All these factors are macroeconomic ones which could not be controlled directly by the farmers and by the banking sector.

Incentives to be Implemented:-

From the above analysis may be claimed that: the agriculture is the sector with the major impact in the Albanian economy but in the same time the sector which faces the greatest challenges; the insolvency, limited capital funds to support the increase of the production capacity in this sector and lack of information on potential funding sources. The presence of banks services and products to support this sector is very low and in this context there is a lot that should be done in order of responsible banking principles. Below are presented some of the incentives that could be applied in this context to develop a stable agriculture business basis.

- **Credit Sustainability:-**

One of the major challenges of the agriculture sector is the limited access of the credit products in banking sector. Most commercial banks do not finance this sector or they offer credit products with high cost. The banking sector in Albania being the only representative of the financial market institutions, have also the obligation to be more present in the sensitive sectors of the economy. More credit instruments should be made available to support producers for more sustainable farming practices. First step that could be a promising initiatives from the perspective of financial institutions are the organization of the product financing roundtables. A regulatory framework that fosters competition, business integrity, and fair practices is critical to create an investment climate that facilitates agricultural development and enhances productivity growth. Based on what has been concluding and in the banking responsible principle the bank has to be more oriented in offering and designing credit product. Personally, having an experience in the banking sector in Albania and knowing the regulatory framework of this industry some incentives that could be evaluated for further development could be:

- **Collaborate with Government Institutions:-**

Recently, the Albania government has been focused in the agriculture sector by initiating different financing incentives. In this framework the first step that could be followed is that Bank should enforce the collaboration with public institutions to understand how more sustainable forms of production can help the both parts, the agro producers and the financial institutions portfolio as well as by being partner in such incentives initiate by the government. In the context of the Albanian government 2014-2020 national development strategy, regarding the agricultural sector, a new incentive has been made in collaboration with EBRD¹².

During January 2016 the Ministry of Agriculture of Albania launched the new agreement assigned with EBRD in support of agriculture sector. The agreements purpose is to develop an innovative program to support local farmer entrepreneurs through the opportunity of risk sharing and credit lines. Under this new platform, the EBRD aims to improve financing opportunities for local agribusinesses providing dedicated credit lines for Albanian banks and microfinance institutions by sharing with them the risk of lending to agribusiness. In this program the Albanian Government will offer a guarantee of 50% coverage of the borrowed amount in order to reduce the risk of lending. Knowing that in this program the risk will be divided with Albanian Government that could be a very good opportunity for the bank to be present in this sector. If the participation will be evaluated in terms of cost the bank has operational advantages because it has a list of all the registered farmers since has the necessity to develop other market study or organize roundtables with the Local Council of the Farmers or other organized institutions which could lead to the farmers, but in this context it is worth to be mentioned that the farmers could be accessed and through the Ministry of Agriculture which participates in this program and is the direct interested part that this program be successful; if referred to the bank staff there is no need for further invest as long as the bank actually offers a credit product even it is not successful as per the borrowing cost and evaluated risk and in this framework the marketing staff is trained about the agriculture sector needs, their characteristics of production and the way how to evaluate the farmers productivity; as per the location even this could not be considered as an obstacles as long as the bank has units located in all the Albanian territory being present to the targeted customer, and at least the financial cost will be not high as long as the role of bank in this program will be as a financial intermediary between the farmers and the government to channelize the EBRD granted funds by profiting a commission that will be settled through an agreement with the respective parts involved in this program. Based on stated cost analysis it seems that participating in this program has more profits than cost, because it impacts positively in being more present with the

¹²European Bank for Reconstruction and Development

customer giving the opportunity to create a collaborative history with them in long term even after the program finishes. Also it impacts positively in creating a good image of the bank in the society by being more present with other product than the common one offered and also by raising the chance to further collaborations with EBRD in future initiatives and programs. And finally in terms of profits, the participation in this program creates chance for financial profits.

- **Financing the Exporting of Agricultural Products**

The banks have to be more present with offering hedge instrument of trade finance, knowing that even with a negative trade balance the trend of export is increasing. Actually the bank has three units, Project and Structured Finance Department which actually designs, offers and manages the International Financial products (Letter of Credit and Letter of Guarantees), the Treasury Department which is responsible to manage the fund and invest them in hedge schemes and to evaluate the best chance of investing the funds in the most appropriate way managing the financial risk faced by the bank and Financial Institutions Department which creates the relations and correspondences with other banks that operates all over the world, by creating the opportunity to set agreement and develop an international trade.

In these terms the operational costs to invest in new unit responsible to manage the International Financial Instruments are low as this unit actually exists and offers Letter of Credits and Letter of Guarantees. As regard of the financial cost they are evaluated and the financial profit of such product is very high in comparison to the represented cost. The only costs that could be evaluated are the marketing ones, to notice to the customers that the bank offers such product in support of the export developing. Also based on the actual internal regulatory of the bank and in the characteristics of such product there could be developed initiatives to facilitate the terms and conditions of these products by being more accessible by all the customers, even by the farmers. Knowing that the major restriction of this targeted customer is the lack of liquidity the bank can offer non-cash LG/LC by sustaining them with short term credit line. In this framework, knowing the possibilities that the EBRD programs offers the bank could channelize a part of the accorded funds in sustaining the export of the agriculture product, by offering them as short term credit line as guarantees for the agribusiness customers. This also gives the chance to diversify the portfolio of EBRD funds by managing the risk.

- **Creating Credit Opportunities for Agribusiness**

The banking sector should give the opportunity to ease the access to credit to the smallholders and agribusinesses for agricultural production and trade. Actually the bank has opened a new unit known as Agro Market Branch because of its location in the agricultural products market. Having made such investment this branch could be considered as an advantage for the bank in terms of the competitions by having the opportunity to be close to the agriculture traders and create with them a close relation by knowing their needs and their financial requirement. The opportunity to convert this branch in a dedicated unit for the agriculture by offering service and product devoted to this target group, could lead in an effective collaboration with this target group by offering and designing new product in compliance with their requirements. This is a good way also to inform the farmers and the agricultural traders about the product that the bank offers actually, by giving to them the appropriate technical advices.

Market dynamics and the Albanian economic development pace refer the request to the banking institutions to design and offer new products in line with market requirements. Knowing that the agriculture is one of the most important sectors in Albanian economy that means that the orientation of the investment to this sector will be an inevitable prerequisite in short term. Based on the challenges that this sector faces and taking in consideration the restriction of the actual financing alternatives that are offered in the market, the banking product that could be designed can be divided in two main categories: agro loan and agro insurance. Let's dwell specifically in each of them.

- a. **Agro Loan:-**

Taking in consideration the diversity of the agricultural activities and of the loans purposes, this category is thought to be divided from the other part in two main classes: Business Loan and Investment Loan.

Business Loans are loans that create the opportunity to finance the agribusiness and small holders need for working capital, while the investing loan is a loan which gave the opportunity to the agribusinesses and individual farmers to finance their investments. The classification of the credit products will be made based on the type and characteristics of the activity that will be financed. Thus in this classification will be considered the subsectors that are developed

in Albania, such as organic product, fruit-vegetables, breeding of the livestock, fishing etc. Also it is important to be considered that through the loans product that will be launched the bank has the possibility to be involved in all the value chain of the agricultural process/activity. Beginning from financing the investment alternatives from buying an asset like agricultural land or technical machinery/equipment (investing loans) till in financing the working capital needs like chemical products, seeds and other short term needs that can be faced by the agribusinesses. Concluding, the products that will be designed for each of the mentioned classes are:

Business Loans: Agro Organic loan, Arboriculture loan, Bee-keeping loan, Seafood/Fishing loan, Plant Products loan, Livestock loan, Greenhouse loan and Dairy Farming loan.

As regard to the product characteristic each of them will have specific features that will raise different requirements about the presented documentation. Thus for example if we consider the Livestock loan the obligatory required document that have to be presented in the bank permits are:

- Farmers Identification Number
- Customer Passport or Identification Document
- The matriculation number of the livestock
- An inventory of the livestock signed and sealed by the Regional office of Agriculture.

Meanwhile, as regard to the repayment of the loan, it will vary from monthly payment to quarterly and even yearly payment. In the meantime, being business loans the loans maturity will vary from 1 year to maximum 3 years.

Another form of the business loans that could be developed is the Contract Farmers loan. In Albania the existence of contracted farmers is usual in the industry of producing and processing of the milk and its by-products. Therefore, the companies engaged in this industry take the input, which in this case is the milk, from individual farmers whose are contracted. The relation between the two parties, the contract farmers and the contractor company, is regulated by a Contract Agreement. The mandatory prerequisite to profit this loan will be the presentation of the Contract Agreement and the contractor company guarantee.

Investment Loans: Equipment/Machinery loan, Irrigation System loan, Greenhouse Investing loan, Farm purchase loan, Agro Project loan, Seafood Hunting Investment loan.

And for these loans the document requirements will differ based on the type of the investment that will be financed. Different from the business loans here the collateral requirement will be an obligatory condition to be fulfilled by the customer, and as collateral can be accepted even the asset that is going to be financed by the loan. The repayment of the loans will be the same, but being long terms loans (5-10 years) the possibilities for modification of the terms, like grace period, will be offered.

b. Insurance Product

Another alternative through each bank that can sustain a sure and consistent development of the agricultural sector is that of offering agro insurance. That means the possibility to offer insurance coverage for the individual farmers and agribusinesses defending their activity and/or working capital from the nature disasters, from theft, accidents, fires, diseases etc. And for this category the type of the product that will be offered will be classified based on the characteristic of the insured activity. In general, the potential products that could be designed and developed in the Albanian market are: Plant Product insurance policy, Livestock life insurance policy, Poultry insurance policy, Greenhouse and Seafood insurance policy.

In the insurance world important is the evaluation of the face risk which will affect also the premium of the police. In this context, taking in consideration also the fact that such products represent innovation for Albanian market the risk will be evaluated based in historic data, which will be taken from the responsible authorities like Ministry of Agriculture. Through the analysis of such data is aimed to be recognized with the frequency of the natural disasters that have affected directly the agricultural activities or the cases when massive diseases have caused loses of the livestock etc. It is important and in the same time interesting to be mentioned the facility that will be given to the insurance policy holder, which consists in paying with instalment of the premium of the police. Giving such facility the banks aim to mitigate the payment pressure from the customer by offering different alternatives based in its activity and financial situation. In this way the bank does not lose its destination and creates the possibility for cross selling of the other product with the customer.

- **Sustain Farmers Cooperatives**

Another step that the bank could undertake in compliance with the responsible banking principles is by creating finance opportunity to a new form of agribusiness and farmer's organization, which is the "Farmers Cooperatives". This is new organization form the one that is taking life in Albania, developed by the union of several farmers in forms of cooperatives where the financial and operative responsibilities are distributed between the members. There is required a yearly or monthly contribution of the farmers who participate in such organization, which is considered as a financial contribution in creating their investment funds, which could be used as a cash collateral guarantee in the financial institutions. The existence of such farming's contract can involve smallholder farmers formally in the agricultural value chain, enabling them to benefit from agribusiness productivity and increase their access to finance. Even why these kinds of arrangements are few in Albania, the existence or the creation of special business product and/or retail loan packages promotes their flourishing and development in market can be another step that can lead the bank to be present and to take the advantage of being the first that offers such support.

There are different advantages from which the bank could benefit by channelizing the fund toward this new organization forms. Thus the agricultural cooperatives can be considered as a good investment alternative, especially knowing that the activity of the farmers involved in this organization is different, creating the opportunity of agriculture product diversification and realizing the distribution of the production and of the selling during the entire year. But what is more important is that this means more stability and consistence of the incomes. In professional terms such organization intended to have more requirements for their member about the technical knowledge of the agricultural production process. In banking point of view, this implies less need for additional cost of investing on technical consultancy about the operational matters of the financed activity. As regard to the collateral issue, which can be considered the big deal of the Albanian bank lending process, the Farmer's Cooperatives in its regulatory framework requires that each of the participant which is engaged in this organizations has to be the official proprietor of the agricultural land. Also based in their internal regulation, during the time the farmer is engaged in this organization the property-ship of the agricultural land or of the technical equipment/machineries has to pass in name of the Cooperative. In the banking viewpoint this means more surety about the required collateral, affecting positively also in appraising it with the real market value, by increasing the marketability of this asset. Taking in consideration the above advantages considering the Farmer's Cooperative as a new target group can be a good choice to exploit market opportunities gaining the position of being the first to invest in such organization forms.

These cooperatives, which based in the Albanian law can be considered as Juridical Person, are in their early stage of the lifecycle, thus also the banking products have to supply their needs based in their financial and legal characteristics.

Considering the actual framework of the bank and its organizational structure the department which could be involved in this process is the Corporate and Commercial Department. This is a department with a consolidated structure, with experience staff in the field of lending and no need for additional investment and training costs are required. What can be done is updating the regulatory framework, agro loan manual including the new market strategy to be focused in the new forms of agribusinesses organization. It is to be suggested that the credit specialist staff, responsible for the agro loan products, have to be more present/active in the field by organizing meetings with cooperative representatives, offering technical and financial sustaining. Thus being in the early stage of the life cycle, the bank has to offer loans with low cost in the first years and mitigation conditions as the way of repayment for the year before. Thus, a financing alternative can be offering grace period for the first 2-3 years which may facilitate the customer. Knowing that the purpose of lending for a financial subject is the long term investment, the maturity of the loan can also vary with that of the mortgage loans. As regard to the collateral bank lending policies requirement, the bank can be more flexible by accepting agricultural land and technical equipment/machinery. The consolidation of the bank internal regulatory framework in accordance with the condition of the designed agro loan product it is a positive impetus for the consolidation of this cooperatives in the market, by being also a bank more present in the agricultural sector.

But as it is known, in a financial decision making, where are involved different group of interest it is important to evaluate and find the best practice to be take but it is also important to evaluate the impact that such decision has in the society. Thus, beyond the common element to these initiatives are also the efforts to ensure that the investments in the agricultural value chain meet certain environmental, social and governance standards.

Social Sustainability:-

In theory it is known that supporting the investments generates desirable social impacts, but why matters the large-scale investments in agriculture sector?

By representing the sector where it is engaged about 50% of the labor market, the investment in this sector has the potential to transform communities. They can affect the sources of people livelihoods, the resources available to them, and the relationship between groups. Positive social impacts of extensive agri-business investments will occur as resources pour in and jobs are created. The ease of credit access means technology transfers and improvements in infrastructure, as long as the investors bring in new skills and build up regions to make their investments more profitable. In fact, the achievement of such effects usually depends in deliberate public-private collaboration and joint planning. Yet the potential for countries to work towards meeting social objectives through integration of investment opportunities into national and local development plans remains largely untapped. One of the challenges that Albania faces as a country who adheres the European Union integration, is overcoming of the difficulties in the agricultural sector. This is also an integration condition. Thus, increasing the presence and attention of the banks in this sector by boosting the cooperation with the public institutions affects positively the fulfillment of one of the European Union directives.

Even though mechanisms to safeguard populations from negative effects of investments, plans and agreements are written into legal frameworks, frequently implementation or enforcement of such mechanisms is lacking. Thus, taking into consideration the fact that individual farmers and smallholders lack the knowledge to estimate the direct and indirect effects of investment, often they face the possibility to underestimate the costs or overestimate the benefits. The involvement in this sector by investing in human capital through financing or organizing training programs, conferences or round tables with farmers or institutions which represent their rights and interests, should foster equitable, sustainable social development. The investment in know-how of the farmers affects, directly or indirectly, in their decision making about investment arrangements and also increases their cooperation and faith in banking sector. Promoting such mechanism improves the welfare of all stakeholders. The experience of the developed countries, underscores the need for dialogue and collaboration between the financial institution of a country and the vulnerable groups of the economy, should be an important approach of the developing countries.

Finally, it is worth to be mentioned the inclusion of the social corporate responsibility in banking policies contribution in increasing business competitiveness.

- Corporate Social responsibility is a key part of the new strategy “Albania 2020”, which aims to build an integrated approach on “a fast, sustainable and inclusive growth”, within a general vision of a social market economy.
- The inclusion of the social responsibility in banking sector is a challenge for the improvement of their competitiveness and it should be included in the agenda for sustainable business development.

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