

SUMMARY OF MINUTES OF MEETING

INVESTMENT COUNCIL

MEETING VII

ACCESS TO FINANCE IN AGRIBUSINESS

Tirana, 29 September 2016, 16h00 – 18h00

The meeting was held at Hotel Tirana International and it was chaired by Ms. Milva Ekonomi, Minister of Economic Development, Trade, Tourism and Entrepreneurship (MEDTTE), with the special participation of Mr. Edmond Panariti, Minister of Agriculture, Rural Development and Water Administration, Deputy Minister of Finance, Mr. Ervin Mete, as well as business associations and international organisations operating in the agriculture sector.

I. Opening of the Meeting

The IC Chair, Minister Milva Ekonomi, welcomed the participants, following with the introduction of the new IC Members from the business community for the period 2016-2017: TAP, EHW, Balfin Group, Producers' Association, BiznesAlbania and American Chamber of Commerce. The Chair thanked the Ministry of Agriculture for the collaboration provided so far to the Investment Council, making also reference to the last IC Meeting of June 2016 where the analysis was focused on Informality in the Agriculture. Meanwhile, the Chair mentioned the important reforms and initiatives undertaken by the Government and the serious engagement of the Prime Minister in addressing sector's concerns.

Afterwards, the Chair gave the word to the Minister Panariti who briefed on some of the achievement made in the agriculture sector and on the efforts made by the Government in strengthening the capacities which would increase the added value and the establishments of standards for the purpose of increasing the competitiveness of the agriculture products, such as in supporting the establishment of the refrigerated warehouses, collection points, processing lines, packaging and calibration. More concretely the Minister highlighted that:

- The exports have increased significantly especially in fruits and vegetables, aromatic/medicinal plants and fishing.
- The Albanian agriculture is beginning to get a profile and develop competitive advantages compared to the other countries in the region. Gradually, this will lead in addressing the issue of fragmentation and consolidation of farms, bring in productive investments in those sectors with a competitive perspective.
- According to him, the technical assistance and agriculture counselling in the future should be made by the collectors themselves, who different from the Regional Directorates of Agriculture, are in direct contact with the farmer, and on the hand the introduction of the economic development model based on contract farming.

- His engagement to increase the threshold of cash transactions up to 90,000 Lek for the VAT compensation, between the farmer and the collecting points, highlighting the facilities that would derive for all the stakeholders.

II. Presentation of the (preliminary) findings of potential bottlenecks for the access to finance in the agribusiness

Ms. Diana Leka, IC Secretariat, explained to the members the work methodology of the Council and Secretariat in selecting the discussion topics of IC Meetings, while in the present meeting the purpose was to present the findings of a report, still unpublished, prepared by experts contracted by the EBRD as one of the components of technical support of EBRD for the Albanian Agribusiness Support Facility. Purpose of the analysis was to identify the bottlenecks and gaps in the agriculture sector within the value chain of priority subsectors which would lead to sustainable investments, growth and competitiveness of the Albanian products. Presentation in the IC of the preliminary findings aimed to generate debate and collect ideas for the orientation of investments in the agro-industry. Therefore, this IC Meeting would be different from the other IC meetings because the Council would not produce concrete recommendations but instead provide suggestions for a further focus of the work initiated in the framework of increasing the investments in the Agribusiness sector.

Mr. Luciano Leonetti, Consultant contracted by the EBRD, in his presentation focused mainly in the non-financial bottlenecks in the sector of agribusiness such as impediments in institutional level as well as in the value chain. EBRD selected some traditional sectors covered by IPARD such as meat and milk processing, fruits and vegetables, olive oil and medicinal plants.

- Despite Albania's potentials for investment in agriculture, the issue lies at defining the interventions, feasible in the short term and beyond, which would bring profits and sustainable investments. Domestic market is already in consolidation phase which means that the revenues of some companies are now sustainable or increasing, meanwhile employment has decreased showing a grow of professionalism, increase of productivity and capitalisation.
- Another important aspect is consolidation of main food stakeholders in the country, which prefer to differentiate (expand vertically). Meanwhile, second-tier business, which initially have been strong in regional aspect, are investing even more to challenge the main local shareholders, such as in the meat sector.

Agroindustry in general in the country is weak and could be strengthened if based on raw materials imported from outside. There are difficulties to reach an agreement between producers and processors, related also to the nonexistence of processors and producers associations to make framework agreements among operators. In addition, there is a need for an information system of the market, as there are problems with the orientation of the market, e.g. there is no updated information on what are the potentials, opportunities, prices and competitors. Furthermore, there is a need for a more qualitative, focused-based and independent technical assistance. From the institutional aspect, as bottlenecks have been considered the unsustainability of legal, political and institutional framework, incomplete match among them, as well as difficulties to reconcile the long-term institution building process with operational needs in the short and medium term.

III. Summary of main raised comments:

Ms. Milva Ekonomi, Chair of the Investment Council, thanked Mr. Leonetti for the presentation and commented that if institutional and legal changes were made more frequently in the agriculture sector, there would be more benefits to the businesses. While regarding the matching between policies and legal & institutional framework, the Government has occasionally received comments from the European Delegation on how to approach these interactions. Afterwards, Ms. Economy gave the floor for discussion to the IC members asking for a reaction first from the business representatives.

Mr. Luan Leka, EHW, expressed his agreement on the analysis presented in particular regarding the problems encountered, and on the other hand he also supported the opinion of Mr. Panariti on the development of the agriculture sector. The sector has increased over the years, but it lags behind despite many opportunities to be restructured and produce more. There is a need for some very strong structural interventions and a political will. From the policy view, regarding land fragmentation, there is the issue of unused land. If a tax on the land was imposed, then the land would either be put in use or be given for use or sold by increasing thus the effectiveness and interest in the usage of the land. Regarding the processing industries of agricultural or livestock products, Mr. Leka introduced two conditions for the growth and competitiveness of these industries regionally or beyond: *i) the fight against informality (as a political action); ii) the review of laws that guarantee food safety, which should be aligned with those of the EU*, allowing competitiveness in international markets.

Mr. Arben Shkodra, Producers' Association, supported the comments of Mr. Leka and said that the current market model is confusing, and it should be clearly defined by the Government whether the market model to access EU market will be the social or industrial one? Policy should be directed to create an industrial and non-social approach to incentivize the industry. Regarding the processing of agricultural products, they are actually exported from Albania in a very simple form, without any processing, creating a kind of advantage to countries that import it, e.g. Albanian products are exported to Macedonia, processed and branded there and then sold in European markets with a much higher price. *On the other hand, the price of land remains an impediment to investment. In relation to access to finance, Mr Shkodra said that the Ministry of Agriculture should inform more the Albanian farmers and producers on the financial instruments available to investors.*

Mr. Mark Crawford, American Chamber of Commerce proposed AIDA to be an institution to attract investments in this sector with potentials. Some of the risks that banks are seeing are weather related while one of the areas in which the government can be engaged is the insurance of microbusiness and IFC has created a group, MicroEnsure which offers insurances for small companies, in order to protect the financial sector.

Mr. Genti Begiri, AIDA, highlighted that the interest for investment in the agricultural sector at AIDA is among the highest, especially by Italian investors, but there are several problems identified in the sector, such as those of sector and land consolidation, but also in relation to the administrative assistance that can be given to AIDA as a promotional instrument of the Ministry of Economy. For the latter one, AIDA needs: *first, feasible projects for investors from the line ministries, in this case the Ministry of Agriculture; secondly, to provide clear public assets to be made available to all interested entrepreneurs.*

Mr. Matteo Colangeli, Director of the EBRD Office in Tirana, said that EBRD is investing in the agricultural sector through a large Financial Facility that is being developed with the government, in collaboration with six financial institutions in Albania. The success of this initiative will largely depend on the ability of the sector/industry to absorb these funds, put them to good economic use, and generate sufficient cash flows to service the loans from the six financial institutions. EBRD not only shares risk with and provides financing to the six participating financial institutions, but also technical assistance to the agricultural industry to support development of value chains that can develop credible projects for financing. EBRD is also assisting the participating financial institution in developing tailored-made products for this industry which has historically suffered limited access to credit, and afterwards to market these successfully to farmers and agricultural companies in the country. The study presented during this meeting and the discussion it generated will be useful to EBRD in forming a view on further priority areas of potential technical assistance to support the investment facility in delivering concrete results on the ground.

Mr. Yngve Engstroem, EU Delegation, mentioned some financial support facilities offered by the EU as IPA programme for agriculture amounting around EUR 70 million for the next coming years; Credit Guarantee Facility, in addition to that provided by the EBRD, in cooperation with KfW, owned by the state; and there are other instruments for access to finance such as 50Fs, the European Fund for Southeast Europe ideal for small farmers. These financial mechanisms should be *promoted more* to the actual users. Whatever type of financing that can be provided through loans or grants will not have any impact unless the environment which this is put into is not conducive for investments. There are still some fundamental issues that should be addressed such as those related to land. Each investment plan in this sector would need to go hand in hand with the resolution of land registration and re-taxation issues. The EU has also provided comprehensive support (in many sub-sectors) for many years on institutional capacities and structures, to foster more stability of the sector. All this support can work if there is a clear plan of action on the institutional side in cooperation with donors for the implementation and monitoring of the plan in order to ensure the impact of funding.

Mr. Edmond Panariti MARDWA, with regard to the land consolidation issue pointed out that land division is made according to the provisions of the Law No. 7501 and that the Government is determined to complete the process. There are two mechanisms that can lead to the consolidation of land. *First mechanism* is the land market: whoever has a property title can enter into the transaction mechanism of buying and selling. A minimum area that is considered optimal to start an agricultural business and to justify the costs of capital investment, inputs, etc., is 20 ha. It will take time for the land market to function and for the land prices to return to reality (and not overpriced as they currently are). *The second mechanism* is virtual consolidation of the land, i.e. surface generated by virtual farmer unions through *aggregators* as for example Xarre model in the south of the country, where a successful cooperative model for export has been set up. Challenges for the Albanian agriculture sector and relevant institutions are much related with the standards of quality and traceability of products, which can make the products competitive in European markets. A model that should be promoted to investors is agro-tourism that can be more profitable and competitive than the economies of large-scale farming, where original Albanian brands can be created and can be further expanded, such as in the olive oil.

Ms. Milva Ekonomi, the Chair of the IC, added that the Ministry of Economy has completed the efforts to build a database where all state and private properties will be placed on a website accessible to all individuals. Projects of small farmers are not ready-made for loans and feasible,

therefore they need the assistance of the regional agricultural directories for enhancing the reliability of the projects in the sector. Also, the concept of investments in agro-tourism, mentioned previously by the Minister of Agriculture, is not often encountered in the communications with the business, but it is an area that could be considered in the future. Currently, in the Ministry of Economy the requests for registration of GI products has been increasing for 2015-2016.

Mr. Ervin Mete, Deputy Minister of Finance. In 2015, the Ministry of Finance introduced 26 measures which specifically targeted agriculture aiming to incentivize the sector. They were supported by the Council of Ministers as well as Ministry of Finance, ceding somehow the strict fiscal rules. The Government continues to be committed, *but the sector should have clear ideas in submitting to the fiscal institutions, feasible and tailored requests that will have a real impact on the ground.* Increase of VAT compensation rate from 6% to 20% was a bold step and highly controversial, which faced difficulties in practice. The figures show about 800 million ALL of VAT compensated upon this scheme. We are currently in a more positive situation, considering that before the compensation schemes almost did not exist, while the farmer equipment with Taxpayer Identification Number (TIN) has helped the fiscal process and setting rules in the industry. Also, Mr. Mete stated that interventions to accelerate the VAT compensation to for exporters are still needed. The Ministry of Finance has applied to the EU, in the position of the manager of the IPA Fund for Agriculture, which are expected to begin next year at the amount of 70 million EUR.

Mr. Shkelqim Bozgo, TAP, informed that TAP Project is in its intensive phases, while one of the greatest expectations in Albania is the engagement of local businesses on this Project. One of the challenges that Albanian business face (especially the construction ones) has been endorsing the high standards in terms of safety or labour, as imposed by TAP. Albanian companies have been highly ambitious to achieve these standards, and looking at the work performed until now, they have met the standards. The Albanian companies have made the improvement of the land cadastre for the TAP project and that can be also a very good example.

The intensity of the work will increase more in the next two years and TAP can be a very good school for local companies that will be given the opportunity to be engaged in this project and for many individuals too, for whom TAP organizes various training programs. The challenge will be when the construction pace will decline, and this may become the subject for discussion in the future of "What will be the stability of these businesses, capacities and areas?" Albanian companies that will have the opportunity to work with TAP will receive a certificate in order to expand their activity in international markets.

Mrs. Diana Leka, IC Secretariat, stressed out that addressing of the land properties problem as in the case of TAP can serve as a positive example for agriculture too, although the difficulties of the sector relate to the land fragmentation. With regard to the lack of skills/qualified workers issue, the Secretariat has collected enough feedback from stakeholders, and this topic will be one of the upcoming topics where to work, possibly with the cooperation of all members and aiming to provide concrete recommendations to this aspect. Also, in reference to the previous recommendations of the Investment Council for AIDA to promote investments, AIDA should first have products, and therefore it is necessary that all line ministries communicate with AIDA to list state properties which may return on *brownfield* investments. After April 2016, a working group has been set up by the Ministry of Economy in cooperation with AIDA. Taking advantage of this meeting, Mrs. Leka asked also the assistance of the Ministry of Agriculture, *to consolidate the working group and to come up with a potential list of public properties, which can be leased for use or for preparing other products that can be promoted by AIDA.* At the next meeting of the IC will be presented an

analysis on VAT reimbursement, which will require the cooperation of all parties to carry out recommendations serving to all the stakeholders.

No.	SUGGESTIONS	COMMENTS FROM MEMBERS
1.	The development of agro-tourism, connected with consolidation of Albanian brands and original autochthonous products – it is suggested to be one of the areas where to orient investments in Agriculture.	
2.	There is need for strong structural intervention with a clear political vision, if there will be a social agriculture or an industrial agriculture. To continue the formalization of Agriculture well-coordinated with the review of food safety legislation process. To identify specific sectors that bear competitive advantages and to target investments in order to leave behind “heterogeneity”, to replicate the model of "contract farming" based on sector profile that can also prevent further fragmentation.	
3.	To develop a clear institutional action plan with separate tasks and deadlines within the framework of EU assistance - which should precede to the legal and institutional changes in order to contribute to the success of the reforms.	
4.	Land fragmentation can be minimized by creating an effective land market, which will take time. Meanwhile, until the market stabilizes, to be promoted the role of aggregators that enable the virtual merge of agricultural land. MARDWA must inform farmers and investors on financing instruments available to business in the agricultural sector.	
5.	MARDWA to conceive feasible and targeted requests for fiscal incentives which have impact into practice. The Ministry of Finance has shown a very flexible position to enable boosting of the sector with respective intervention in fiscal legislation.	
	The success of the assistance provided by the Government and	

6.	EBRD, will depend largely on the ability to absorb these funds, implement projects and capacity building especially in terms of the value chain in the sector considered as a priority.	
7.	MEDTTE to prepare and make accessible to investors an inventory of public properties. Prepare a list of public assets including assets under property by the Ministry of Agriculture that can be leased or sold (privatized) by investors. This inventory to be used by AIDA, investors and municipalities as information for targeting investments.	

Participants List

Governemnt Representatives

1. Ms. Milva Ekonomi, Chair of Investment Council/Minister of Economic Development, Tourism, Trade and Entrepreneurship
2. Ms. Natasha Ahmetaj, Deputy Governor of Bank of Albania, in absence of Mr. Gent Sekjo, Governor of Bank of Albania
3. Ms. Blerina Gjoni, Advisor, in absence of Ms. Ermonela Felaj, Minister of State for Relations with the Assembly
4. Mr. Genti Beqiri, Executive Director AIDA
5. Mr. Erion Prifti, Director of Taxpayer Service, General Directorate of Tax, in absence of Ms. Vasilika Vjero, General Tax Director
6. Ms. Arjana Dyrmishi, Advisor of General Director of Customs, in absence of Ms. Belinda Ekonomi, General Custom Director.

Busines Community

1. Mr. Shkëlqim Bozgo, TAP Manager for Albania
2. Mr. Luan Leka, CEO EHW GmbH
3. Ms. Edlira Muka, CEO Balfin Group
4. Mr. Arben Shkodra, Chair of Producers Association
5. Mr. Mark Crawford, President of AMCHAM

International Partners

1. Mr. Yngve Engstroem, Head of Development Sector, EU Delegation Albania
2. Mr. Matteo Colangeli, Director of EBRD Regional Office Albania
3. Ms. Silva Mauri, Agriculture Specialist of World Bank Office in Albania, in absence of Ms. Tahseen Sayed, Director of World Bank Office Albania

Absent in the meeting:

1. Mr. Bledi Çuçi, Minister of State for Local Issues/ National Coordinator against Corruption
2. Ms. Laura Qorlaze, IFC Representative in Albania

Special guest

Mr. Edmond Panariti, Minister of Agriculture, Rural Development and Water Administration