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## Article

# The analysis of the national schemes in agriculture

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## The Analysis of the National Schemes in Agriculture

Arjana Misha<sup>1</sup>, Fatmir Memaj<sup>2</sup>

**Abstract:** The agriculture sector is one of the most important sectors of the Albanian economy. The recent official data of the GDP in the country, show that agriculture sector represents 20% of the GDP and demonstrates steady growth. One of the reasons of the growth is the support policy designed by the government and the instruments chosen for the implementation of the agriculture policies. Since 2007, a new approach is being used to support the agriculture sector, applying schemes to farmers and agro-businesses to facilitate the investments and the upgrading of the farms. Since then, the sector has known steady increase, being the main contributor to the national growth. The macro and micro data provided by the official statistics show that main economic indicators have positive results, which drive us to the findings that the national schemes allocated by the government each year since 2007, have an impact to the growth and the strengthening of the agriculture sector.

**Keywords:** analysis; trends; agriculture production; national schemes; rural development

**JEL Classification:** Q14

### 1. Introduction

According to INSTAT, the real economic growth of the Albanian economy for 2014, was 2.02 % compared to the year 2013. The sector of agriculture, forests and fishery count for 20,0% of GDP and the 2014 growth is 2,25 % in real terms, contributing with 0.44 percentage point in the GDP growth. (Table 1, INSTAT, 11 December 2015).

**Table 1. Main macroeconomic indicators (2013-2014 with current prices)**

	2013*	2014**
<b>Gross Domestic Production with current prices (in million leks)</b>	1.350.555	1.400.549
<b>National gross income (in million leks)</b>	1.353.368	1.383.843
<b>Annual real growth of GDP at constant prices compared to the previous year (in %)</b>	1,11	2,02
<b>Annual average population (in thousand inhabitants)</b>	2.897	2.894
<b>Gross Domestic Product per capita in:</b>		
Thousands leks	466	484
Euro	3.323	3.457
USD	4.411	4.587

2013\* Data are semi-final

2014\*\* preliminary data on yearly basis

*Source: Instat, December 2015*

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Albania is a middle income country according to OECD with per capita income of 4587 \$ in 2014 (table 1 above). The population has a negative increase as we can notice from the data. In 2014 Albania has a population of 2.894 million people, compared to 2897 million in 2013 and 3162 million in 2007 (Instat, administrative data).

For the first time, the population living in urban areas has exceeded the population living in rural areas. The resident population in urban areas was 53.5 per cent while 46.5 per cent of the population lived in rural areas.

According to INSTAT<sup>1</sup> data, the labor force in agriculture accounts for 50 % of the working age population or around 47.7% of the total employed (442,806 employed in 2014).

The labor force in rural areas is characterised by a higher number of women compared to men, while the agriculture holdings are headed by men in 93.5% of the cases.

Imports of agro-food products have increased by 4.4 % in 2014 compared to 2013 and 1.28 times compared to 2007, while exports have increased even at higher pace, namely 11.5 % in 2014 compared to 2013 and 2.21 times compared to 2007, thus trade deficit is growing at lower rate (1 to 9 in 2011), but the trade imbalance is still a big challenge for the sector, 1 to 5.4 in 2014 (Table 2).

**Table 2. Trade in food and agricultural products**

	Units	2007	2013	2014	2014/2013 In %	2014/2007 In %
- export of agri-food products	mill. EUR	54.8	108.7	121.2	111.5	221.2
- share in export of all products	%	7.0	6.2	6.6	106.5	94.3
- import of agri-food products	mill. EUR	503.9	622.1	649.4	104.4	128.9
- share in import of all products	%	20.9	16.8	16.5	98.2	78.9
- trade balance in agri-food products	mill. EUR	-449.1	-513.4	-528.2	1/5.4	1/7.7

*Source: Instat*

The labor productivity in agriculture measured by GVA for annual working unit (AWU) s increased significantly with more than 46% in 2011 compared to 2007 while in 2012 reached the value of 3,615 Euro per AWU<sup>2</sup>.

Despite the positive trend of the agriculture production in Albania, the performance is still low if compared to EU countries. This situation is dedicated to the small scale and fragmented farming, low level of technology absorption and investments in agriculture (still low at EUR 20 million), weak irrigation and drainage infrastructure exposing the agriculture sector to severe weather conditions and climate change effects. In the recent years there has been an increase in the farm size but the Utilised Agriculture Area (UAA) per holding in Albania is still very low, only 2.8 ha, indifferent compared with EU 27 14.5 ha, Bulgaria 12.1 ha, Italy 7.9 ha or Slovenia 6.5. (Zhllima, et alli., 2014)

<sup>1</sup> Labor market-INSTAT : [www.instat.gov.al](http://www.instat.gov.al)

<sup>2</sup> IPARD 2 Program

## 2. Subsidies Background

The current national support schemes have been allocated to farmers and agro-businesses since 2007. The aim of the state intervention has been to the agriculture sector through direct measures and investments allocated to agriculture holdings. The schemes are annual and cover a wide range of direct payments and certain investments schemes. The annual value of the national schemes has been different from year to year (see Figure 1).

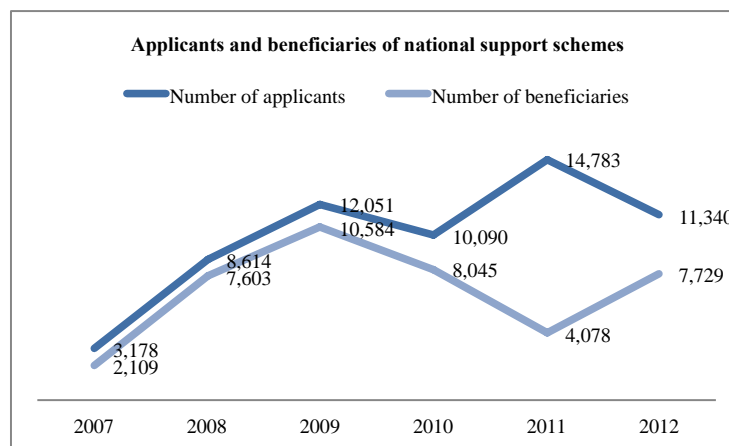


Figure 1.

Since 2007, the supported sectors were:

- Production of fruits, nuts, olives and vineyards through support to the establishment of new orchards, investments in wells and irrigation systems, plant protection systems and propagation of saplings of autochthonous varieties;
- Production of vegetables in protected areas (greenhouses/tunnels) through support to investments in plastic sheets for green houses, drop irrigation systems, new greenhouses based on solar energy;
- Production of milk, based on payments to livestock farms for milk delivered to dairies paid per litre of milk; support to milking cows and sheep paid per head, support to sheep breeding for transhumance, rabbit breeding, production of extra virgin olive oil paid per litre produced, and support to bee hives and honey production;
- Production of organic products and certification of organic (bio) products;
- Promoting of rural credits in agro-processing and agriculture mechanization through interest rate subsidies;
- Promotion of Agricultural Cooperation;
- Snail breeding;
- Cultivation of MAPs.

The overall value of the state subsidies for the period 2007-2012 was around 50 million Euro. According to the distribution showed above in this document, the support schemes have contributed to an increase in the number of areas under plantation and production growth in several subsectors. The area of utilized agricultural land is increased more than 20,000 ha since 2007 consisting mainly of new plantations. Now

almost 2/3 of the total agricultural land is utilized, which implies that there is need for improves/increased utilization in the years to come. On the other hand, the number of farms/agriculture households has decreased by 4% in comparison to 2007 mounting to 353,341 farms in 2011. (MARDWA).

**Table 3. Share of the budget of olive and vineyards support schemes to the total budget of support schemes for each region/district, total 2007 – 2012**

District/ region	Total ALL	Olive plantation		Vineyard plantation	
		ALL	Share to total	ALL	Share to total
Berat	637,537,675	390,162,516	61%	32,345,900	5%
Diber	344,104,045		0%	29,669,500	9%
Durres	274,180,038	79,916,732	29%	51,769,180	19%
Elbasan	658,158,576	448,143,110	68%	39,633,000	6%
<b>Fier</b>	<b>718,523,904</b>	<b>397,615,809</b>	<b>55%</b>	<b>61,389,250</b>	<b>9%</b>
Gjirokastr	291,388,004	74,897,634	26%	23,870,500	8%
Korce	631,443,050		0%	25,846,170	4%
Kukes	226,826,217		0%	16,694,950	7%
Lezhe	271,396,910	83,281,870	31%	22,084,900	8%
<b>Shkoder</b>	<b>651,979,765</b>	<b>211,734,843</b>	<b>32%</b>	<b>61,066,900</b>	<b>9%</b>
Tirane	418,152,888	144,400,649	35%	45,730,310	11%
Vlore	527,053,179	209,498,370	40%	23,773,600	5%
<b>Lushnje</b>	<b>272,327,415</b>	<b>95,958,377</b>	<b>35%</b>	<b>35,764,140</b>	<b>13%</b>
<b>Total</b>	<b>5,923,071,665</b>	<b>2,135,609,909</b>	<b>36%</b>	<b>469,638,300</b>	<b>8%</b>

*Source: Payment Agency*

The main beneficiaries were farmers who invested in olive plantations – given that the olive sector has been a priority sector for GoA, this support scheme has received more than 1/3 of the total budget (Table 3 above). Other supported sectors include orchards (plantation), agrifood processing, and vineyard (plantation) and livestock.

The state support include several measures split into direct support and investments. Analysis carried out by national and foreign experts in the framework of projects, show that among several sub-sectors subsidized, olive and vineyards sectors are by far the most relevant one. Olive sector, as shown above, has been by large the most attractive sector for the support schemes. Olives are followed by orchard plantations and agrifood processing – but since this category are less homogenous for the purpose of our analysis (e.g. it is not feasible to compare yields and other parameters, for example under orchards we have different types with different technical and economic conditions/parameters. Same rational applies for agrifood processing too). Thus, the next “important priority sector” in line is vineyards.

**Table 4. Share of the budget of Shkodra, Fier and Lushnje to the total budget for olive and vineyards support schemes, total 2007 – 2012**

<i>Region/ district</i>	<i>Olive plantation</i>		<i>Vineyard plantations</i>	
	<b>ALL</b>	<b>Share</b>	<b>ALL</b>	<b>Share</b>
<i>Lushnje</i>	95,958,377	4%	35,764,140	8%
<i>Fier</i>	397,615,809	19%	61,389,250	13%
<i>Shkoder</i>	211,734,843	10%	61,066,900	13%
<i>Totali</i>	2,135,609,909	100%	469,638,300	100%

*Source: Payment Agency*

The regions of Shkodra and Fier (including Lushnje) have both received significant share/funding for the plantation of olives and vineyards to the total support schemes budget for each region respectively. For example, more than half (55 percent) of the support schemes budget of Fier has gone for olive plantations, while almost 1/3 (32 percent) of the support schemes budget of Shkoder has gone for olive plantations (Table 4).

#### **4. European Support for the Preparation to Use IPA Funds for RD**

Albania is an aspirant country to become a European Union Member. On May 2006 the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the Republic of Albania, of the other part, has been signed. The agreement expresses the commitment by Albania to approximate its legislation in the relevant sectors to that of the Community, and to effectively implement it.

The *acquis* on agriculture and rural development covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement and control by an efficient public administration are essential for the functioning of the common agricultural policy (CAP). Running the CAP requires the setting up of a paying agency and management and control systems, such as an integrated administration and control system (IACS), and the capacity to implement rural development measures. Member States must be able to apply the EU legislation on direct support schemes and to implement the common market organization for various agricultural products<sup>1</sup>.

To this end, Albanian Government has put efforts to set up the legislative basis as well as institutional and relevant capacities. The Payment Agency has been established in 2007 and half of its staff is dedicated to the preparations for implementing the IPARD funding. European Commission and Albanian Government have agreed to allocate funds<sup>2</sup> for capacity building as well as grants allocation to farms, which purpose is two fold: from one side to exercise the relevant structures to the IPARD procedures and from the other side to allocate grants to farmers and agro-businesses following almost the same criteria and procedures like in IPARD.

<sup>1</sup> (Brussels, 09 November 2010) SEC (2010) 1335 “Commission Staff Working Document” *Analytical Report*.

<sup>2</sup> IPA 2011 “Support to Agriculture and Rural development” funded by European Union on the value of 10 million Euro, 2.485 million co-financing of the Albanian Government and 6.265 million Euro from farmers.

The implementation of the IPARD-like grants brought up a lot of constraints related to the legacy of the procedures and criteria fulfillment. The realization of the grants didn't go smoothly because the complexity of the procedures and criteria to be fulfilled by the farmers and agro-businesses, which brought into attention the necessity to complete the major reforms in the country such as the land reform and the property rights reform. In addition, there were launched three calls for applications accompanied by a vast awareness campaign which was realized in different regions of the country with the participation of the interested groups and individuals (Table 5).

**Table 5. Execution of the contracted application**

		<i>No. of Applications</i>	<i>Value €</i>
<i>Call I</i>	<b>Total Grant Contracted</b>	<b>19</b>	<b>1,455,925.40 €</b>
	Total Grant Paid	17	1,223,721.88 €
<i>Call II</i>	<b>Total Grant Contracted</b>	<b>17</b>	<b>528,127.49 €</b>
	Total Grant Paid	12	137,492.63 €
<i>Call III</i>	<b>Total Grant Contracted</b>	<b>52</b>	<b>3,502,271.95 €</b>
	Total Grant Paid	3	34,409.14 €

*Source: Payment Agency, 2015*

## 5. Recent Interventions in the Sector

In 2013 the annual allocation was 6.6 million Euro, and is increased in 2014, allocating 8.4 million Euro, the ratio being 127.2% increase in 2014 (Table 6).

**Table 6. Domestic schemes**

	<i>Number of Applicants</i>	<i>Value in Euro</i>
<b>2013</b>	5601	6,598,189
<b>2014</b>	8770	8,354,649

*Source: ARDA*

In 2015, the preliminary data<sup>1</sup> tell about an allocation of 9.5 million Euro, the increase ratio being 114% compared to 2014. The characteristic of this year allocations is that around 50% of the domestic support value (4,737,931€) has been allocated for investments. This value cover up to 50% of the total investment which means that almost ten million Euro has been invested in agro processing, as a result of which new jobs have been created and the level of living of families has been improved. Unfortunately we don't have evidence of the direct impact of the public schemes to the living conditions of the rural families.

<sup>1</sup> ARDA 2015.

**Table 7. Agriculture production in 000 tons**

	2010	2011	2012	2013	2014
<b>Crops</b>					
<b>Cereals</b>	694	701	697	703	700
<b>Vegetables</b>	860	890	914	924	950
<b>Fruit trees</b>					
<b>Fruit trees</b>	168	188	210	218	220
<b>Olives</b>	70	65	108	92	98
<b>Citrus</b>	13	15	19	20	21
<b>Grape</b>	185	195	197	204	204

*Source: INSTAT, Statistics of Agriculture and Livestock, 2014*

The statistics about the general impact of the allocations to farmers and agro-businesses by domestic and EU schemes, indicates that there is an impact in the production of the agriculture production and specifically in the produces that have benefited from the national schemes.

Instat informs that the number of fruit trees has been increased during 2014 (see table 7): fruit trees 2.89%, olives 4.34%, citrus 6.66% and vineyard area 2.01%<sup>1</sup>. Meanwhile the production of grapes has been steady for two consecutive years.

The table above support the finding that the support schemes are the main factor of production increase. The extension of the areas with plantations as well as investments in technology and equipment result in the production increase.

## 6. Recommendations for the Future

- The situation shows that the land fragmentation is one of the weak points of the agriculture and rural development.
- The national schemes should promote the creation of the farmers/producers associations which mean higher production and exports and more income to farmers.
- The IPARD experiment showed that reaching the standards is a big challenge for the policymakers, executers and farmers/agro-businesses to the ending of having access to IPARD funding in the near future.
- The policies should focus also to the land consolidation reform supporting projects of land consolidation which will bring to the creation of economically viable, competitive and sustainable farms and will bring the better use of the territory and agriculture.
- The importance of regular yearly monitoring and review of the schemes in addressing current and future priority needs should be combined with the empowerment of the collaboration with technical bodies such as Food Safety and Veterinary institutions, extension services, Property Right agencies, the land cadasters, land registers, etc.

<sup>1</sup> Source: INSTAT, Statistics of Agriculture and Livestock, 2014.



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