ALBANIAN AGRICULTURE: DRAMATIC CHANGES FROM A VERY CENTRALIZED ECONOMY TO FREE MARKET. A STRATEGY FOR FUTURE DEVELOPMENT

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ABSTRACT

Albania started its transition to a market economy in 1991. It is one of the few economies in transition to have experienced positive agricultural growth early in the reform process, as opposed to most Central and Eastern European countries which saw their agriculture sector contract over several years. But since 1995, output growth of agricultural production has stagnated and early high sector growth rates have slowed. To overcome this situation, a new Agricultural Development Strategy is elaborated. The dramatic changes that have occurred until now and the main topics of a new agricultural development strategy are presented in this paper.

RÉSUMÉ

L'Albanie démarra sa transition vers une économie de marché en 1991. C'est une des rares économies en transition à avoir connu une expérience positive de croissance agricole au début du processus de la réforme, contrairement à la plupart des pays du Centre-Est européen qui vécurent leur secteur de contrat agricole pour plusieurs années. Mais depuis 1995, le rendement de croissance du début a ralenti. Pour surmonter cette situation, une nouvelle stratégie des développement a été élaborée. Les changements dramatiques qui survinrent jusqu'à présent et les principaux sujets d'une nouvelle stratégie de développement agricole sont présentés dans ce papier.

Albania used to be the closest and most centralized economy in east Europe.

At the beginning of '90 the country was involved in a process of dramatic changes.

Agriculture have been in the forward of this process. Reforms implemented after 1991 have completely changed Albanian agriculture. Instead of some hundred large scale agricultural co-operatives and enterprises about 400,000 family farms of an average size of 1.1 ha have emerged.

Further changes are expected to take place in the future.

These changes will aim at consolidating private property and free initiative in agriculture, as well as at overcoming serious impediments to the growth of agricultural production such as its backward primitive production system, very small size of farms, poor infrastructure and the like. The agricultural sector is one of the most important ones in the national economy. It is estimated that the domestic production meets up to 70% of the total of food requirements of the population. Over 50% of the active population is engaged in agriculture.

The major part of the country's population (over 50%) lives in rural areas. The countryside is inhabited by the poorest stratum of population (1, 2). Maintenance of a stable macro-economic framework-including stable prices and a stable real exchange rate as well as an appropriate-free incentive framework-is the single key service, governments can provide in support of agriculture and rural development.

The overriding importance of the macro-economic and incentive framework has been empirically documented in many countries (7, 8, 9, 10, 11). Renewed economy-wide real growth is also critical for agriculture sector growth.

The crisis of 1997 led to a real deterioration in macroeconomic stability. In the first six months, inflation escalated to 28 percent due to supply shortages as security broke down and economic activities were disrupted, and as public confidence plummeted. Over the same period, the exchange rate lost 40 percent of its value against the dollar. On taking office in July 1997, the new Government rapidly took steps to arrest the deteriorating fiscal situation. Supported by a six-month IMF program (November 1997 to April 1998) under the Fund's Post-Conflict Emergency Assistance Policy, the Government implemented major fiscal measures which, together with improvements in security allowing for the resumption of revenue collection, spending cuts on investments and operations and maintenance, and a freeze on budgetary wages, helped limit the domestically-financed fiscal deficit to less than 11 percent of GDP in 1997. This was well under the IMF program target of 14 percent, and much lower than the estimated 17 percent in the absence of any measures. The initial stabilisation measures, together with the restoration of some semblance of political stability and improvements in security, have led to some important improvements in economic performance. Macroeconomic indicators seem to be optimistic. So, inflation for 1998 was kept under control in level of 6.9 percent against 8 percent forecasted by experts of IMF in agreement ESAF2, and, on the other hand, the GDP increased of about 8 percent. Over the next years, Albania is expected to continue its fiscal consolidation and structural reform efforts, supported by ESAF program. This program aims in cutting the fiscal deficit to more sustainable levels and, together with an appropriately tight monetary policy aims to reduce inflation to below 5 percent. Lower inflation, and re-

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duced financing need of government allowing for expansion of credit to the private sector, together with structural reform measures, should help stimulate private investment and growth.

GENERAL OVERVIEW OF AGRICULTURAL DEVELOPMENTS

Institutional and organizational framework of the privatization process

Privatization of Agricultural Land began with the approval by the Parliament of the Land law No.7501 date 19/07/1991. The first stage began with the distribution of the agricultural land in the ex Agricultural Co-operatives. Land was distributed according to the present available agricultural land and the number of persons living in the villages of the ex-co-operatives. The intent of the law was to distribute all land proportionally to every family according to the number of its members as of August 1,1991. (a) Agricultural lands, irrigated and un-irrigated and with differing slopes and quality were given size equivalent to make distribution more equitable. (b) There were special distribution criteria for fruit orchards, grapes and olive orchards. (c) Agricultural land within the village boundary lines and not occupied by buildings, were given as usufruct and not as property. (d) Agricultural land was distributed without cost as usufruct or as property to natural and legal entities.

Policies related to the restructuring of the former state and collective farms

On the Decision No. 452 date 17/10/1992 "Restructuring the agricultural enterprise (State Farms)" the government continued to privatize the land of the ex agricultural enterprises (State Farms) and according to the following criteria: (a) Agricultural enterprises or their units which were created mainly from the land of the former co-operatives, were given to the village families "in property" according to Law 7501. (b) The land benefited by State investments in drainage, clearing of forest, or expropriation of large estates, was given "in use" to the families of these enterprises, but the land remained property of the state and there was a maximum limit for the land that was distributed to individual persons.

Privatization of former state farms and livestock complexes (stables) underwent three stages: Stage I - (November - December 1992) land privatization commenced in 79 state farms. Stage II - (April 1993 onwards). All state farms entered the privatization process. Stage III - (October 1993 onwards). Mass privatization of livestock complexes (stables with their livestock and other facilities pertaining to them). The former Central Agency for Privatization of State Farms dealt with 341 state farms which had about 70 thousand objects [assets] (excluding fruit trees and vineyards) with a value amounting to 5 billion lek (the latter one including fruit trees and vineyards). Out of the total of 70 thousand objects 300 of them have not been sold yet and it is foreseen that they shall be privatized by the first half of 1999. In order to have in place as quick as possible a procedure for liquidation, a Decision of the Council of Ministers No. 666 dated 26.10.1998 has been approved. The Law on Land on July, 1991, made nearly a lot of the village people owners of the land, but this created social contradictions between the recipients of the land and the ex-owners and their heirs.

As distinct from other countries, in Albania's legislation for the privatization of agricultural land, the land was not given back to the ex-owners of the property prior to collectivization, but it was distributed to the families which lived in the villages. This was done because the majority of population lived in the villages (over 65%) and agricultural land per person in Albania was very low (2.2 dunums per person). In fact, about 65% of the agricultural land has been distributed more or less in accordance with the law, while about 35% has simply been taken back by ex-owners, or the heirs of the ex-owners who held the land prior to collectivization.

In 1995 a new law was passed (Law No. 8050 of December 21, 1995) converting the user rights of holders of ex-state farm land into land titles (tapia) in the same way as was done for the holders of ex-co-operative land. This law allows for leasing of former state farm land as tapia's are issued. The process of converting user rights into tapia has been carried out in about 95 percent of the cases.

Law No. 7699 of 21. April 1993 "On the Financial compensation of Former Owners of Agricultural Land" recognizes former property rights on agricultural land for financial compensation purposes only. All ex-owners are to be compensated for properties based on the pre-1945 cadastre (art. 1.). The former owners and their heirs, who have already received land on the basis of Law 7501, are only eligible to the difference between land in their possession pre-1945 and area assigned to in the last distribution (art. 6.). The upper limit of financial compensation should in no case exceed the equivalent amount paid for 43.5 hectares of land (art. 8/3). Pastures, meadows, forest lands and forests which are proved via official papers as having been privately owned will be returned to their original owners and their legitimate heirs.

Law No. 7698 date 15/4/1993: "On the Restitution and Compensation of Ex-owners", gives property rights to the ex-owners or their heirs over state properties, expropriated and confiscated after the Liberation on November 29,1944. The law also defined the methods for the restitution and compensation.It did not include immovable property in the form of the agricultural land treated by Law 7501. More concretely, this law recognizes ownership rights for those properties which at the moment of law passing, existed in the form of unoccupied house plots or in the form of immovable buildings. In all cases, the rate of restitution and compensation in value or in kind will up to 10,000 m^2. In 1996, efforts have been made to create legal spaces that allow compensation in kind of the original agricultural land owners with building grounds at tourist areas. The law No. 8854 date 07.03.1996 and a decision of Council of Ministers No. 528 dated 13.05.1996 "measures on compensation in kind with building grounds at tourist areas", have been approved. So far no practical actions has been taking place and no relevant bodies have been set up that will be responsible for its enforcement. It is necessary that steps be taken for the solution of the problems related to the compensation of original land owners. Although the land distribution process is estimated to account for 97% of the land, yet there are many villages where this process has not been entirely completed, because of conflicts amongst village inhabitants, or conflicts of the latter with city inhabitants, which claim to occupy these lands. Awarding of land titles is estimated to have reached 85% of the total number.

Land transactions (buying and selling, mortgaging and leasing)

Considerable progress has been made in 1998, in terms of improving legislation associated with land transactions. Land transactions (buying and selling, mortgaging and leasing) were, in principle possible under the Law of Buying and Selling of Land (No. 7983 dated 27.07.1995). This was limited by: (a) the right of first refusal which required that a seller must first offer his land to member of his family, then a neighbour, then to the ex-owner, then to village members, before being able to offer it to a third party buyer; and (b) by joint family ownership without providing an operational definition of what constitutes a family. These two issues (and others) have been addressed in the recently adopted land transaction law ("Law for transferring the ownership of agriculture land, meadows, pastures and forestry", No. 8336 dated 23.04.1998) and should improve the security of land transaction. Land transactions have been completed even for those plots in which full registration did not occur. The Government has authorised the Chief Registry Institution implement special registration criteria, in order to carry out land transactions at the registration offices at the districts in which final full registration was not completed. Acceptable provisions authorising the leasing and subleasing of agriculture land (and protecting the rights of the respective contractual parties) are contained in the new Civil Code of Albania (Law No. 7850, July 29, 1994). By law No. 8318 dated 1.4.1998, the Albanian Parliament approved the leasing of the state-owned agricultural land to Albanians and foreigners. The new law (8336 dated 23.04.1998) including as well agricultural, forest and pasture lands, provides for rights to lease such land to foreigners for a period up to 99 years. By law No. 8337 date 30.4.1998 leasing land to foreigners ranges from 30 to 99 year according to various investments activities on state owned agricultural land. At present banks do not take agricultural land as a collateral for loans. This is because there does not function a real agricultural market and no simple applicable practices are in place containing sanctions against clients not paying back loans.

The Government recognizes that the rapid registration of land is essential to for the consolidation of a sustainable land market. Registration of property goes beyond the scope of the project. A National Chief Registrar's office has been set up and registries operate at the district level. The Council of Ministers has approved the opening of registries all over the country. From 11,3% of cadastral zones where final registration had been completed until 1997, until December 1998 this number had increased up to 30%. There is an increase in the number of land transactions at the registries. Until end of December 1998 some 2.050 transactions on land were performed, while until end '97 only 150 transactions were completed. Act of selling and buying agricultural land have taken place mainly in the areas with urban precedence for buildings and different industries.

They belong mainly to: (a) suburban area next to Tirana and other biggest cities of the country; (b) next to main corridors of entrance roads to Tirana; c) next to areas with precedence for tourism development. The level of selling price of agricultural land varies between 8 and 12 US$/$m^2$. In the most intensive areas of the country there are signs of leasehold for agricultural purposes. Different farmers that cultivate intensive vegetables in the field, produce seeds, etc., have leased agricultural land from their neighbours, signing a contract 1 to 3 years and paying 100-250 US$/ha, according to the land quality, irrigation etc. Actually, this phenomenon is in its first steps and there is not an accurate evidence about the quantity of leasehold and the number of farmers leasing agricultural land. As regards the yet undistributed lands some 121.450 ha of land have remained undistributed from the total surface of land classified as unproductive. To this aim the Parliament approved law No. 8312 "on the administration of undistributed lands" date 26.3.1998.

One of the problems which may be facing the agricultural sector as a result of this off-migration is the fact that, in most cases, the land held by the migrants becomes fallow when they leave the farm rather than being used by other farm operators still located in the area.

Thus, fragmentation of land holdings remains the norm in the sector with more and more of it becoming fallow as the populations leave the farm. Between 1996 and 1997 the areas held fallow by active farm operators (i.e.

Table 1 ***Establishing a functioning agricultural land market.***

Name	1994	1995	1996	Jun 97	Dec 97	Mar 98	May 98	Dec 98
Districts in which land registry officially opened	0	0	15	22	22	34	34	34
Districts in which office space provided for land registries	2	13	24	25	25	27	30	32
Districts in which land registry offices functioning	0	0	15	19	20	23	28	33
Cadastral Zones in which registration process begun	410	995	1,487	1,650	1,724	1,774	1,800	1,962
As percentage of land area	12	35	53	58	60	62	63	69
Cadastral Zones in which registration process completed		80	203	345	483	575	632	920
As percentage of number of cadastral zones		2.5	7.5	11.3	16	19	21	30
Properties registered as part of general registration						642,591	661,000	900,000
Properties registered by special registration						30		120
Ownership certificates issued by registration offices				2,011	3,734	5,587		13,600
Transactions in agricultural land completed				150	395	629		2,050

Sources: Ministry of Agriculture and Food.

those still in operation) declined from 96.000 ha to 71.000 ha.

Changes in farm structure and size (ownership and operation)

Landholdings have been privatized on a massive scale. All co-operative and state farms have been liquidated. By November 1995, almost all farmers had either a tapi or use rights for the land, in the case of those farmers that received land from state farms. And in the case of the latter, most of the land use certificates are or have been converted into tapi's. The 492 co-operative farms averaged 1,024 hectares in size, provided 49.9% of the total agricultural production, cultivated 70% of the arable land, and employed 39% of the total labour force. On ex-co-operatives, 365,000 families have control over 426,000 hectares, diyided into 1,5 million parcels, with about 2/3 of the parcels being granted through official ownership allotment certificates (tapi).
The 150 state farms averaged 1,070 hectares in size and varied from 500-2,000 hectares. State farms provided 29.2% of total agricultural production, cultivated 24% of the arable land and employed 21% of the total labour force. On State Farms, 101,000 families have control over 120,000 hectares divided into 0,4 million parcels, held for the most part under usufruct allotments.
Privatization has also clearly brought about fragmentation of agricultural land. In 1997 the average farm in Albania planted 3.4 parcels of land and consisted of a total area of only 1.1 hectares. Small farm sizes are especially prevalent in the northern parts of the country. For example, in 1997 farm sizes averaged 0.5 hectares in Dibër and Kukës Prefectures and less than 0.9 hectares in Shkodër Prefecture. As a consequence, the traditional agricultural sector in the country consists almost entirely of subsistence farmers with heavy emphasis placed on livestock as opposed to crop production. Even so this area was approximately two thirds of the crop area reported in 1990. In addition to the decline in cropped area, there has also been a substantial shift in the cropping patterns as farmers have adjusted their production to fit the changed conditions.
In summary, the privatization process has resulted approximately 2 million parcels of highly fragmented agricultural land.

Table 2 ***Distribution of agriculture land (1998).***

	ha
Total Agricultural Land (Cadaster)	**702.005**
of which: ex-co-operatives	547.922
ex-State farms	154.033
Land distribution completed (private)	**562.671**
State owned Agricultural Land	**17.884**
of which: State Institutions (Research, etc.)	3.173
Existing Joint Venture	2.010
Other	12.701
Refused Land	**121.450**

Sources: Ministry of Agriculture and Food. Agricultural Statistical Year-Book 1997 (3).

Socio-economic characteristics of farm labour

By 1994 most of Albania's agricultural assets has passed into private hands. According to the 1995 Annual Agricultural Survey, Albania has a total farming population of 2,4 million persons of which 1.3 million live in the highlands, 450 thousand in the piedmont and 727 thousand in the level plains zones.
From 1994 through 1996, both farms' number and the farm population remained relatively constant in Albania. Farm numbers climbed slightly from 420,000 to 444,000 from 1994 to 1995 and remained at the 1995 level during the following year. Farm population numbers followed a similar pattern, increasing slightly from 2.26 million to 2.43 million persons from 1994 and 1995 and then remaining near its 1995 level in the following year. However, in the 1997, the off-migration from farms increased significantly. Farms' numbers decreased by better than 10 per cent from 443,000 in 1996 to 397,000 farms in 1997. The majority of this off-migration probably occurred because of the crisis that occurred in Albania in 1997.
The number of rural-based Albanians working abroad in 1995 was estimated at around 170,000 and the num-

Table 3 ***Changes in farm numbers / farm population by prefecture.***

Prefecture	Farm numbers				Farm population			
	1996	1997	Change	% Change	1996	1997	Change	% Change
	(number)				(000)			
Berat	31,600	28,200	–3,400	–10.8	161.3	146.9	–14.4	–8.9
Diber	46,200	43,600	–2,600	–5.6	294.0	268.8	–25.2	–8.6
Durres	31,800	24,900	–6,900	–21.7	158.1	124.9	–33.2	–21.0
Elbasan	51,200	43,400	–7,800	–5.2	289.1	238.7	–50.4	–17.4
Fier	59,200	59,400	+200	—	306.6	314.6	+8.0	+2.5
Gjirokastr	22,000	16,800	–5,200	–23.6	97.8	87.2	–10.6	–10.8
Korca	33,000	32,900	–100	—	162.9	153.7	–9.2	–5.7
Kukes	18,400	19,000	+600	+3.3	110.3	109.6	+0.7	+0.6
Lezhe	29,000	30,300	+1,300	+4.5	155.9	156.6	+0.7	+0.5
Shkoder	43,500	47,700	+4,200	+9.7	219.4	226.9	+7.5	+3.4
Tirana	31,300	28,400	–2,900	–9.3	170.0	138.4	–31.6	–18.6
Vlora	46,000	22,100	–23,900	–52.0	217.3	89.1	–128.2	–59.0
Total	443,200	396,700	–46,500	–10.5	2,342.7	2,055.4	–287.3	–12.3

Source: 1996 and 1997 Annual Agricultural Surveys, MOAF/SSI.

ber of families having at least one member abroad was 115,000 or 24 per cent of all rural Albanian families. In addition, rural-urban migration is already widespread and is viewed as an appropriate change in most cases. (The exceptions are those high potential agriculture areas near Greece that currently lie idle due to the attraction of higher incomes across the border). It offers a means to raise the incomes of both the people who leave, and those who remain. Observation and anecdotal evidence suggest that this is happening to some extent in that out-migration is strongest in the poorest, most isolated mountain areas, and that a large proportion of this out-migration is descending on Tirana where the informal economy is very active.

An examination of the 1997 population off-migration from the farm at the prefecture level would reinforce the observation that the primary factor causing this movement was the 1997 crisis. In the Southern and Central portions of the country, where most of the unrest ocurred, only Fier and Korca did not have significant off-migration of farm operators and their families. In Berat, Elbasan and Tirana Prefectures, from five to 10 per cent of the farms' operators quit farming and from nine to 18 per cent of the populations migrated off the farm. In Gjirokaster and Durres Prefectures, better than 20 per cent of the farm operators departed, and from 10 to 21 per cent of the populations migrated off the farm. However, by far the largest off-migration occurred in Vlora Prefecture.

In summary, significant off-farm migration occurred in 1997, especially in the southern and central sections of the country. Nor is it expected that this off-migration will slow in the near future.

Given the significant levels off-migration from the farm in the agricultural sector, one might expect that there has been at least some changing of the farm population which has occurred, and a comparison of the age structures for the farm population collected under the *1994 Special* and *1997 Annual* Agricultural Surveys would indicate that this is happening.

In 1994, 33 per cent of the farm population – 743,000 persons – was less than 15 years of age. By 1997, this number has dropped to 606,000 persons –29.5 per cent of the total population. Similarly, in 1994, 22 per cent of the population was from 15 to 24 years of age. By 1997, the proportion of the population falling in this age group had fallen to 20 per cent of the total. Finally, in the last two age categories shown in the table-persons from 25 to 54 years old, and those 55 years and older, both the numbers and proportion of the on-farm populations falling in each category increased between 1994 and 1997. In 1994, 32 per cent of the population was 25 to 54 years old, and under 13 per cent was 55 years of age and greater. By 1997, nearly 36 per cent of the population fell in the first age category-25 to 54 years of age-while better than 14 per cent fell in the older age category. One might expect this aging to continue as farm off-migration continues.

Restructuring, demonopolization and privatization in the upstream and downstream industries

Privatization of agrifood enterprises has been done in three phases: i) first phase (1992 to April 1993). In the course of this period bakeries, milk processing factories, lines for manufacturing beverages and soft drinks', and other assets were privatized based on the decision of the Council of Ministers No. 374, dated 10.08.1992. Some 1000 objects were privatized during this period. ii) second phase (May 1993 - February 1994). Priority was attached to privatization of small and large-scale enterprises and around 1300 objects were privatized during this period. iii) third phase (March 1994 on-

Table 4 ***Total Numbers of Persons Engaged in Agriculture in Albania by Age Group.***

Age Group	1994		1997	
	Number	Percent	Number	Percent
Under 15 Years	743,000	32.8	605,800	29.5
15 - 24 Years	503,300	22.2	419,600	20.4
25 - 54 Years	730,500	32.3	738,600	35.9
55 + Years	286,900	12.7	291,200	14.2
Total	2,263,700	100.0	2,055,400	2,055,400

Source: 1994 Special and 1997 Annual Agricultural Surveys, MOAF/SSI.

wards). This phase is characterized by deepening of privatization and an orientation to mass privatization.
As of September 1997 around 89 percent of all agro-processing and agriculture marketing have been fully privatized, while the remaining 11 percent are at various stage in the privatization process. The original 288 enterprises up for privatization have been divided into 4,194 more or less self-contained "objects" to ease the privatization process by making the investments more accessible to Albanian investors. Out of the 4,194 objects 3735 (or some 89 percent) had been fully privatized. The remaining 459 objects (11 percent of all objects) are under the process of privatization carried out by the Ministry of Public Economy and Privatization.
The Government confirmed in October 1997 a privatization plan of the World Bank, to privatize 8 large scale state owned agro-food enterprises.
Based on a survey on the agro-industry activity made on the first half of the year from MAF, it comes out that the agro-industry sector is composed mainly of small private-owned enterprises result of the both privatization and free initiatives process. There are about 2016 enterprises operating in agro-industry sector in Albania. 65 percent of them operates in bread making and milling and over 22 percent of them is located in Tirana Prefecture.
There are 9600 persons employed in this industry; 85 percent of them in the private sector. About 88 percent of the sold production generates from the private sector, while 90 percent of the investments in the sector are private ones and respectively, 90 percent and 10 percent, with own and credited capital.

Agricultural trade agreements

Since 1992 Albania has had an observatory seat at the WTO. At the end of August 1998, the Albanian Government submitted to the WTO Secretariat in Geneva a document on the working group meeting and the obligatory tariffs as provided by the new customs code (8-digit harmonized system). A consultative meeting with the countries delegations interested in negotiating with Albania took place in Geneva at the end of the year, while on 27 January 1999 the regular meeting of the working group took place. The Albanian offer, as well as the changes (improvements and fulfilment) in legislation, have been analysed in this meeting. Meetings are also held in the framework of bilateral negotiations. One of the overriding objectives for the future is to make as much bilateral meeting as possible who would help Albania to adhere the WTO (possibly within 1999).
During the period December 98 - January 99, Albanian Parliament approved two new laws on the customs system. The first law approved by the Parliament in December 1998, provides an equal consumption tax on the imported goods and those produced in homeland. It is the matter of some of the food industry products such as alcoholic drinks and not, including also here the mineral water and tobacco (in the previous law there has been a difference of 50-80%).
The other law approved by the Parliament in January 1999, concerns in the new customs code. This law has been drafted with the assistance of European experts in the field of customs (DG 21) and it defines the way of setting up new customs procedures in compliance with other countries' standards.
Based upon this law, the production's price floor is not going to be applied any more; taxation will be applied on the receipt's price.
The agriculture and agro-industry sector supply represents mainly a liberalized one and which is compliance with the WTO commitments and policy. A characteristic of the agricultural sector and agro-industry, is that Albania applies no subvention measures in its agricultural development policies and does not support subvention measures on food exports. The agricultural inputs and products market is totally liberalized; there is no imports limitation; there is no monopoly and the state involvement in the agro-food production trade is very low (less than 5%).
In May 1992, the European Economic Community and the Republic of Albania signed an agreement on "Trade and commercial and economic co-operation" to establish trade links between the European Community and Albania. This agreement was signed in the belief that a further impetus should be given to the trading and economic relationship between the community and Albania by establishing contractual links which will contribute to progress towards the objective of an association in due course, when conditions are met.
At the second meeting of the joint committee of the European Commission with the Albanian Government, which took place in Tirana on 23-24 in March 1998, it was agreed that in the field of agriculture and agro-industry necessary measures should be taken to allow Albania to fully benefit of the advantages offered under the existing agreement.
Support offered in the framework of the PHARE programme will be utilised in order to improve the legal framework and the necessary technical rules and regu-

lations to allow Albanian imports in the EU countries to increase.

Financial infrastructure and credit policies

The Bank of Albania (BoA), to keep under control the main macroeconomic indicators, has been imposing a very coercive monetary policy in the country. It defines the interest rates limits of savings and loaning for the second level banks. According to its resolution of the end of 1997, it forbade these banks to credit more if 20 percent of the loans lent were not returned. In these conditions, starting from the last trimester of the 1997, the three Albanian second level banks could not give any loan. Rural Commerce Bank (RCB), which also had the highest non-returned loans figures, has been liquidated and a new agency, Bank Assets Resolution Trust, whose duty was to collect the RCB loans, is established. The National Commerce Bank (NCBA), after being audited by a foreign auditing company, is being prepared to enter into the process of privatization, while the Saving Bank will also be involved in the preparation process for its privatization.
In these conditions, the economy crediting is totally supported by the foreign capital banks (there are seven). Their activity has been concentrated mainly in Tirana and there are only 2-3 branches in other towns. During 1998, while the crediting limit defined by the BoA, also according to the IMF agreement, was at 6 milliard Lek (about 40 million USD), only 3 milliard Lek (about 20 million USD) has been used. Mainly, the private sector has been credited (70 percent of the loans are used to credit the working capital) and in most of the cases in foreign currency (80 percent of total).
For the year 1999, a limit of 8 milliard Lek (about 55 million USD, referring to the actual exchange rate) for crediting has been set, but, it is assumed that, however, there will not be a growth in the credit used. In most of the banks the agriculture, as well as the agro-industry, is not among the main priorities for financing.
There are two other credit institutions operating in Albania; FEFAD (Foundation for Enterprise Financing and Development) supported financially and technically by the Federal Republic of Germany (KfW and GTZ), whose aim is the crediting of small business and Albanian Development Fund (ADF), supported by the World Bank and other donators, in the framework of the projects aiming at reducing the rural poverty, is carrying out the rural crediting program. ADF exercises its activity mainly in the north-east part of the country. Main credit activities are livestock 64 percent, agriculture 12 percent, trade 9 percent, etc.
The project, as for the decision making and responsibility in loan return, functions by basing upon credit councils of the village and which since now has given very satisfactory results (95 percent of loans has been returned). In its future objectives this project will aim at a greater autonomy of the institution itself and the growing of savings.

THE NEED FOR A NEW AGRICULTURAL DEVELOPMENT STRATEGY

The present stage of Albanian agriculture development may be a determent as the end of the phase of preconditions of agricultural developments, in which important institutional changes have occurred (structural improvement, market involvement, access to information and technology, changes in farmer behaviour to progress etc.) and the beginning of the phase of growth in the effectiveness of agricultural production through "labour intensive and capital saving" innovations (5). So we are in a phase in which agricultural sector represents a dominant production activity, when the need for agricultural products gets higher as the level of population income is increased and the necessarily capital for industrial development is still lacking.
Albania is one of the few economies in transition to have experienced positive agricultural growth early in the reform process, as opposed to most Central and Eastern European countries which saw their agriculture sector contract over several years. But since 1995, output growth of agricultural production has stagnated and early high sector growth rates have slowed, dropping from around 13 percent in 1995 to 8 percent in 1996, 1 percent in 1997 and 4-5 percent in 1998. A persistent negative agricultural trade balance represents a major component of the overall trade deficit (USD 198,2 million for 1998). The agricultural exports are still lower than imports of about 8 times.
To face this situation the Ministry of Agriculture and Food has elaborated an Agricultural Development Strategy paper. The final document on the mid-term Agricultural Development Strategy has been approved by the Council of Ministers in December 1998.
Elaboration of a strategy for the development of Albanian agriculture complies with and fulfils the various recommendations formulated by the International Community, in particular at the Ministerial Conference of Rome (October 17, 1997), and at the Donors Conference of Brussels (October 22, 1997) and Tirana (30 October 1998).
Development of this strategy will enable, among other things, the Albanian Government to:
— respond to the conditions imposed by the international community to Albania in accordance to the need of the national agricultural development;
— co-ordinate, in a more rational way and with greater efficiency, technical assistance projects the international community made (and will make) available to Albanian agricultural development;
— create conditions for the approximation of Albanian agriculture to the European Union, aiming at a gradual integration.

Opening Albanian's agriculture to the world and integrating Albanian's many remote rural areas within the Albanian economy, will require public efforts in: (a) the maintenance of an appropriate incentive framework; (b) support to agriculture productivity by addressing constrains associated with irrigation and drainage, farm inputs, and support services; c) institutional development regarding land tenure, marketing and agroprocessing, and rural finance; (d) rural development with regard to non-farm income growth, rural infrastructure and rural poverty alleviation; and (e) management of natural resources. The task of supporting rural and agriculture development will require a co-ordinated effort between public institutions, going well beyond the limited responsibilities of the Ministry of Agriculture and Food. Ultimately, however, the future of agriculture and rural areas in Albania will be determined by private sector initiatives and activities. By focusing on the five mentioned areas, Government would support development by providing a framework within which private initiative could prosper. Within the framework of an open economy and a limited but important role for public support to agriculture and rural development, Albania should aim at developing an agriculture based on high value commodities including selected fruits, vegetables, niche produces and grassland-based livestock products, utilising the climatic endowment and the cheap labour force available for these more labour intensive products. On this basis and in that direction, the country could become a significant exporter of these products both to the EU but also to Central and Eastern Europe. By increasing high value production Albania may well become a net agricultural exporter, though it will always need to import significant amounts of grains, oilseed and sugar.

The part of marketable agricultural production destined to domestic consumption or export is relatively limited in comparison with the global volume of agricultural production, and the level of production for own-consumption is very high. The domestic market of agricultural products is a free market. No supportive and favourable systems exist nor do there exist restrictive measures to producers. As far as exports are concerned they are not subject to customs duties and fixed quota licensing is employed. We are still far from the objective for securing consumers of safety, quality and hygiene of agricultural exports according to European standards.

Instability of the market is caused by the lack or insufficiency of specific infrastructure for the preparation, standardization, conservation and commercialization of products; the inadequacy of transport infrastructure, of the quality legislation and of control and information services; the lack of contractual relations between producers, wholesalers and/or transformers and of a commercial policy that evaluates the export possibilities ensuring to the Albanian products favourable outlets abroad and an equitable custom regime, mainly to prevent unfair competition on the domestic market.

The main policy objectives can therefore be identified in:

a) organizing the market to ensure producer a fair price for his products, taking in account the demands of the consumers and/or processors also regarding the safety and quality of product.

b) creating conditions for better opportunities to producers for the marketing of their products both in the domestic and foreign markets

– Strengthening the contractual position of the producers, with interventions intended to promote the concentration of supply at the producers' level, and to improve the transparency of the market;

– Encouraging the quality and hygienic improvement of products;

– Ensuring an adequate trade regime for internal market and opening the export possibilities for Albanian products through mechanisms compatible with the International regulations to be determined during the course of the negotiations for the admission to WTO.

Policy actions in the short term should focus on the areas of the preparation, presentation, conservation, and commercialisation of agricultural products. The structures of transportation and commercialization in the main centres of consumption and export should be improved. The contractual position of the producer in the commercial filiere should be strengthened by organi zing experimentally in focused areas examples of concentration of supply and by reorganizing the services and diffusion of "market news" for domestic and foreign markets according to the model of "Farmer's Rural Assembly Market". The approximation of legislation to meet Eu veterinary, phytosanitary commercial and hygiene standards should be accelerated. Incentives (e.g. VAT reduction) may be provided for "normalized" products. Legal responsibility and decision power of the actual inspectors (Food, Veterinary, Hygienic Inspections) should be better defined, and the National Steering Committee of Food Control institutionalized (rights, duties regulation, staff etc.). As for trade policy an adequate custom duties regime for Albanian producers should be defined and applied and negotiations for entrance in WTO continue. In the contexts of the negotiations for accession into the WTO specific and collective programs of export in benefit of revival of economic and commercial co-operation with the EU should be elaborated and promoted. In the medium term examples of concentration of supply of the type "Farmer's Assembly Markets" (with free adhesion of producers) will be extended to new areas by providing incentives through the fiscal and credit systems, and the improvements to market and commercial infrastructures and information will be carried forward.

The quality improvement of products will also be en-

hanced by completing the relevant set of laws and rules, reinforcing financial encouragement in favour of "normalized" products, reinforcing the control of health and quality of product, strengthening the Food Research Institute and Veterinary Research Institute.
Economic and administrative structures will be put in condition to apply customs duty in compliance with WTO principles, and quality control on imported products, and the export of agricultural products will be promoted through a specialized structure. The effort to secure quality improvement of product will be sustained ensuring continuity to the responsible administration and follow legislative and technical evolution with particular attention to EU directives. Market stability and consolidation of export markets will be sought through commercial agreements and participation to international fairs and other initiatives.

Conclusions

In 1991, Albania was one of the last countries to enter the road of transition towards the market economy. The deep crisis of the former system had left the country without sufficient economical resources and appropriate institutions to face the transition. In these circumstances it was decided to follow the way of radical transformations, (4, 6).
Agriculture, which constitutes the main branch of the economy, was in the front to the changes. In the context, privatization was considered as essential element of reforms. Such a choice at the beginning, led to a sort of chaotic transition associated with very dramatic changes. But rapid reforms did not delay to show their results. So Albania became one of the few countries in transition which experienced an increase of agricultural production since in the very beginning phases of the reforms, Albania is now one of the countries with highest levels of privatization in agriculture (8). The agricultural sector has been and still is the main contributor to the GDP (accounting to 55-65%). Sustainability of the reforms carried out so far was proved to have been such in the crisis our country went through back 1997.
However since after 1995 a decline in the growth rate of agricultural production is being observed. It seems that the factors contributing to the growth in the first 3-4 years of the reform have started to exhaust.
On the other hand, despite the important improvements, production system remains primitive, yield remains low, many farms are of very small size and too fragmented to be effective as well as a poor infrastructure exists. The present stage of Albania agriculture development may be determined as the end of the phase of preconditions of agricultural developments, in which important institutional changes have occurred (structural improvement, market involvement, access to information and technology, changes in farmer behaviour to progress etc.) and the beginning of the phase of growth in the effectiveness of agricultural production through "labour intensive and capital saving" innovations (5). Actually agricultural sector represents a dominant production activity, the need for agricultural products gets higher as the level of population income is increased and necessarily capital for industrial development is still lacking. Under these circumstances one must look for development factors at the agricultural sector itself. Thus, while impressive, the changes wrought to date are only the beginning of the transformation process.
To face and guide this process, the Ministry of Agriculture and Food of Albania elaborated an Agriculture Development Strategy.
Opening Albania's agriculture to the world and integrating Albania's many remote rural areas within the Albanian economy, through: (a) the maintenance of an appropriate incentive framework; (b) support to agriculture productivity by addressing constrains associated with irrigation and drainage, farm inputs and support services; (c) institutional development regarding land tenure, marketing and agroprocessing and rural finance; (d) rural development with regard to non-farm income growth, rural infrastructure and rural poverty alleviation; (e) management of natural resources, from the backbone of this strategy.
Given the role of agriculture is likely to countries to be determinant to the economic development of Albania it is obvious there is a need for this strategy. However delays in implementing it, especially those related to the consolidation of new institutions, would have negative impacts for the country in the long run. ●

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