

Albanian Agricultural Competitiveness Program

(AAC)

SUBSECTOR SELECTION REPORT

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BACKGROUND

The Albanian Agricultural Competitiveness program was awarded to DAI on July 16, 2007 and is a five-year program with the objective of increasing the quality and volume of agricultural production in Albania. The Albanian agricultural sector has great potential for rapid growth but producers need assistance if they are to meet the end markets' requirements in terms of volume, quality, and characteristics. To realize this potential in both domestic and export markets AAC will strengthen capacity at the farm level while at the same time linking producers into efficient, market-driven value chains. The AAC program aims to stimulate growth in Albania's agricultural sector, which will contribute to achieving sustained, broad-based economic growth and poverty reduction in targeted rural areas.

AAC objectives will be reached through (1) building producer capacity to increase farm-level productivity, cost competitiveness, and post-harvest management; (2) strengthening market development capacity to tie production to viable market opportunities, and (3) improving access to accurate and timely marketing information. Over the life of the program AAC will focus on up to ten competitive value chains building the quality and volume of production linked to high-growth markets. Each value chain traces one commodity or a group of closely related commodities from the producer through to the end market. The AAC program will demonstrate how Albanian agriculture can evolve to meet the demands of the domestic and export markets while adapting to the changing environment.

This report presents the results of the subsector selection process to identify the five subsectors on which the AAC program will initially focus. These subsectors have the strongest economic growth potential and also meet other development objectives of the AAC program. The subsectors include those pre-selected during the proposal phase, olives, melons and vegetables, and two additional commodities, cultivated herbs and tree fruit. For the broader subsectors (in this case vegetables) the AAC team will further refine selection of two to three specific value chains within the subsector during the value chain assessment phase and before the development of the Commodity Development Plans. The subsector selection process did provide some insight into potential value chains as presented in the report section on Selected Sectors below. Additional subsectors or value chains will be selected during the implementation of the AAC program as new opportunities present themselves.

The following sections will describe how these subsectors were prioritized by outlining the methodology for selection, presenting the subsector selection data, and providing a brief description of each of the selected subsectors. Finally the report will briefly outline the next steps in preparing the Commodity Development Plans to ensure appropriate strategic subsector-specific activities of the AAC program.

METHODOLOGY

The methodology employed for subsector selection was designed to achieve a rapid selection of prioritized subsectors, while taking into account the various objectives of the project and minimizing inherent bias. Data collected on the various subsectors were quantified to provide a fair comparison across sectors. This was achieved in several phases.

Figure 1. Subsector Selection Criteria

<p>Competitiveness <i>Which commodities have the most potential for growth?</i></p> <ul style="list-style-type: none"> ▪ Domestic and export market growth potential (new or growing market) ▪ Potential to differentiate from the competition ▪ Potential forward/ backward linkages ▪ Value-added potential 	<p>Development Criteria <i>Which commodities have the most potential to meet program objectives?</i></p> <ul style="list-style-type: none"> ▪ Potential to increase income ▪ Number of households involved with commodity ▪ Potential increase in productivity (yield/ha) ▪ Potential for positive impact on gender disparity ▪ Geographic distribution of benefits 	<p>Feasibility <i>Which commodities can we work with and see results?</i></p> <ul style="list-style-type: none"> ▪ Interest of producers and other value chain actors in change ▪ Ability to produce results within desired timeframe ▪ Potential private sector contribution
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The first phase entailed specifying the subsector selection criteria to be used during this process. The criteria presented in the AAC proposal and found in Figure 1 were refined and further specified and can be found in Table 1 along with a brief description of each criteria. Criteria were selected based on their relative strength in measuring the potential competitiveness of the Albanian commodity, the viability of engagement with a subsector, and the impact on project objectives. The relative competitiveness of a given commodity is measured by the existence of market demand, and ensuring that the costs of production allow for farmer profit, given the end price, which can also be influenced by program activities. Recognizing that not all criteria are equally able to measure the ability to achieve project objectives and viability of engagement, the criteria were weighted according to their relative strength for subsector selection.

Table 1. Subsector Selection Criteria

	Selection Criteria	Description	How measured	Weighting
Competitiveness	Estimate of domestic market demand	Measure import displacement & local market potential	Imports from EU; secondary data of local market	5
	Estimate of unmet export market demand	Measure export potential	Trade analysis of exports to EU, Serbia and Croatia	4
	Current excess processing capacity	Unmet demand in domestic processing industry	local knowledge of processing subsector	3
	Forecast processing capacity in 2012	Estimated future demand of processing industry	local knowledge of processing subsector	1
	Degree of product differentiation	Relative competitiveness of Albanian product	local knowledge of subsector; secondary data	2
	Untapped Value Added	Ability to increase value of final product	local knowledge of subsector; secondary data	3
	Transportation/ Distribution	Identifying constraint, largely related to perishability	local knowledge of subsector; secondary data	2
Feasibility	Lead firm(s) present	Potential for embedded services; leadership	local knowledge of subsector; secondary data	4
	Nascent producer groups	Ability to reduce project and market transaction costs	local knowledge of subsector; secondary data	3
	Results by 2012	Results within AAC lifetime	local knowledge of subsector	5
	Capital requirements	Identify potential capital constraint	local knowledge of subsector; secondary data	2

	Selection Criteria	Description	How measured	Weighting
Development Criteria	No. of farmers engaged in subsector	Potential scale of impact	MoAFCP data	4
	Potential area in production 2012	Potential to increase production	MoAFCP data	2
	Potential to increase incomes	Potential scope of impact	local knowledge of subsector; secondary data	5
	Potential to increase productivity (yield/ha)	Potential scope of impact	local knowledge of subsector; secondary data	3

The potential list of subsectors to be assessed was identified through a review of secondary data, interviews with subsector experts, and drawing on our experience in Albania implementing the EDEM project. We focused on subsectors that were large enough to have a substantial economic impact and had potential for future growth that could be leveraged for maximum impact. As described above subsector categories used are broader subsectors rather than individual products so that the AAC program could work on more than one value chain within each subsector over the five year life of the program.

The second phase of subsector selection entailed data collection. This was achieved through interviews with subsector experts, a thorough review of secondary data including those reports and documents listed in Annex A, and analysis of Albanian trade data¹ between 2001-2006 from the Global Trade Atlas. The data on which the AAC subsector selection were made are in the following section.

The final phase was to rank each subsector in relation to the others across the various selection criteria and to calculate the total weighted score for each subsector. As the data shows, the commodities with the highest rankings across all three categories of selection criteria are those selected for initial AAC program implementation: olives, melons, vegetables, tree fruit and cultivated herbs.

There are two cross-cutting issues which are important in implementation of AAC activities, but which did not have a significant impact on the subsector selection: gender and environment. Our analysis found that there was very little difference on the impact of gender disparity and environmental issues across the commodities investigated. As a result, these criteria did not influence subsector selection, but will be one factor in the value chain assessments and will be incorporated into the Commodity Development Plans.

SUBSECTOR SELECTION DATA

The results of the data collection for the subsector selection from various sources are presented in this section. Table 2 presents the complete results per criteria which provide the basis for the

¹ In reality the analysis used shadow data, which is partner country reported imports from Albania, as Albanian customs export data is not considered reliable by the GTA.

final ranking and there is additional information presented on domestic market and export market potential.

Table 2. Subsector Selection Table

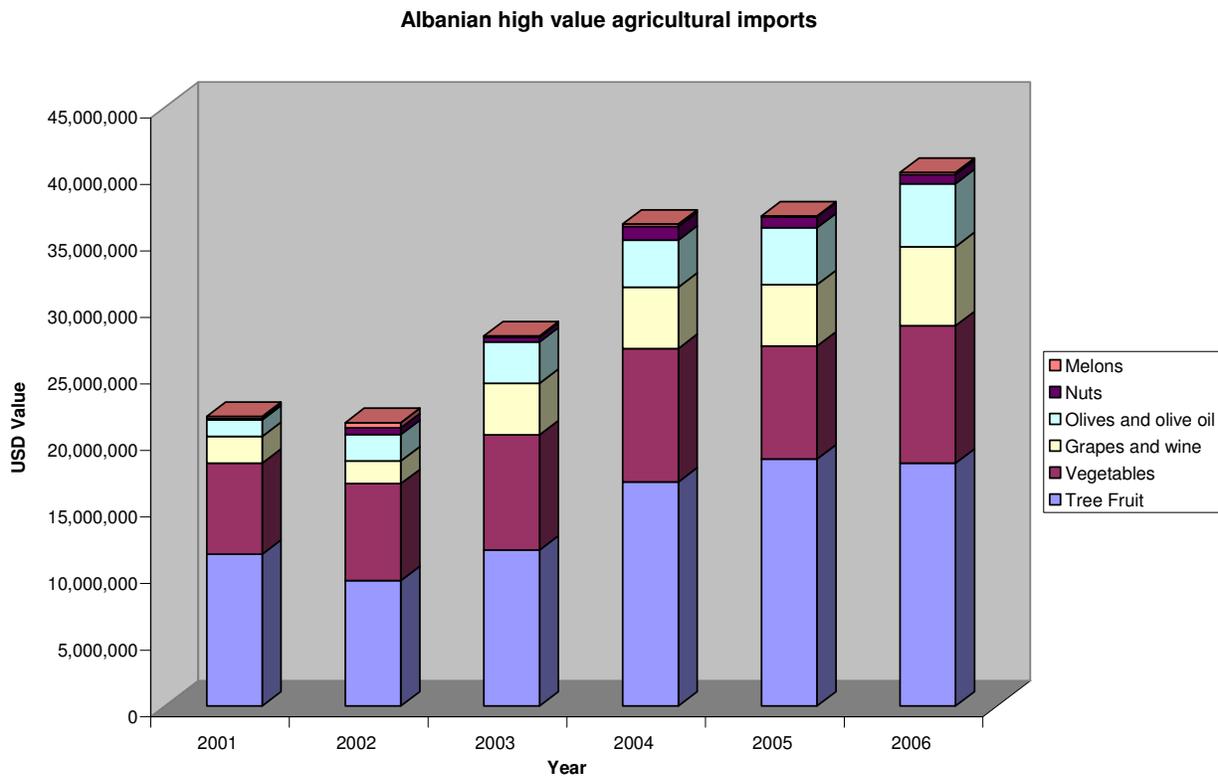
SELECTION CRITERIA		Olives	Melon	Vegetables	Grapes (wine and table)	Nuts	Tree Fruit	Cultivated Herbs	Aquaculture
Competitiveness	Estimate of unmet domestic market demand (imports are from EU in 2006 in USD)	-Import \$4,735,183 olives and oil -Albanian prices for olives higher than regional -Processor problems buying olives	-Import \$178,837 -Domestic market appears to be almost saturated	-Import \$10,309,554	-Import \$5,945,643 -Imports of grapes and wine doubled since 2001	-Import \$673,073 -Imports supplement domestic production	-Import \$18,245,791	-High domestic demand -Production is replacing some wild harvest to reduce costs	-Limited domestic demand
	Estimate of unmet export market demand (exports to EU, Serbia and Croatia in 2006)	-Export \$109,000 olive oil -EU market and Albania's share of market growing	-Export \$604,564 watermelon -Exports growing 25% per year -EU market and Albania's share is growing	-Export \$1,502,869 (mostly legumes) -EU relative market size and Albania's share are shrinking, but only slightly	-\$18,083 exported in 2005 -EU relative market size and Albania's share are shrinking	-Export \$1,105,884 (mostly chestnuts) -EU relative market size and Albania's share are growing	-No fresh fruit -\$1,502,056 dried apple -EU dried apple market is strong	-Coffee, Tea, Mate And Spices* is \$800,828 -EU relative market size and Albania's share are shrinking	-Large export of caught fish, little farmed fish -\$918 of fresh trout and \$6,235 frozen trout 2001 -Maybe some cultivated sea bass exports
	Current excess processing capacity	-Currently 130 processors -Processors report excess capacity -New company online this year	-Demand is for fresh product -Cooling and packaging is lacking	-Yes. Processors (Sejega, Sidney) are operating at 50% capacity in spite of importing veg.	-Yes. Processors are forced to import raw material to improve capacity utilization	-Very little processing.	-Little processing for compote, apple drying, etc. -Sejega has excess capacity	-Processors and exporters of wild harvested herbs having increasing problems sourcing herbs	-Fish farming is now inefficient -Increase in open water rearing of live fish (Saranda, Himara)
	Forecast processing capacity in 2012	-Processors are planning on expanding production	-More consolidators are becoming interested and intend to invest in packhouses	-No known new operations but could increase once supply constraint is lifted	-Several new wineries in past 5 years, it is expected that their production will increase	-No known new operations	-No known new operations	-Essential oil processors are increasing their capacity	-No known new operations -Increase in open water rearing of live fish (Saranda, Himara)
	Degree of product differentiation (seasonal, organic, quality, etc.)	-Some organic production -Preference for local product	-Early season -some EUREPGAP certification -Different varieties	-Early season production -Some organic and EUREPGAP certification	-Some unique Albanian varieties exist	-Some organic certified production	-Good quality fruit	-Some organic certification	-Limited but quality is generally very high
	Untapped Value Added	-Improve packaging -Develop specialty oils -Post-harvest management	-Improve post-harvest handling -Introduce new varieties eg. Bimbo seedless -Certifications including EUREPGAP, organic, etc. -Multiple harvests	-Extend production season with greenhouse/ tunnel production -Improved varieties -Post-harvest management	-Improve post-harvest handling -Improve packaging of grapes and wine -Introduce seedless varieties	-Can add value through grinding, de-husking -Organic and 'wild harvested' certifications for export	-Introduce new varieties -Improved packaging -Improved post-harvest handling	-Increase organic certification -Improve packaging	-Data not available
	Transportation/ Distribution	-Must get to processing w/in 24 hrs of harvest -Poor infrastructure on Southern Coast affects this strong production area	-Major issue due to high perishability -Lack of cold chain	-Major issue due to high perishability -Lack of cold chain	-Major issue due to high perishability -Lack of cold chain	-Production base in mountainous area but non perishable product reduces impact	-Major issue due to high perishability	-Not a key constraint as much cultivation is vertically integrated with processor	-Major issue due to high perishability -Lack of cold chain

* Majority of these exports are assumed to be spices

SELECTION CRITERIA		Olives	Melon	Vegetables	Grapes (wine and table)	Nuts	Tree Fruit	Cultivated Herbs	Aquaculture
Feasibility	Lead firm(s) present	-Many processors such as ANI, EVRM, etc. -Large firms are less than 5% of processing	-Some consolidators including Bruka Seedling, ARIS	-Strong consolidators include Agrokon, Lika, Bruka, Aris, etc	-Some large wineries including Cobo, Relikaj -17ha farm of table grape production	-Some. Firms in Tropoja, Peshkopi and Patos	-Strong processors and some good consolidators	-Some strong processors (Xherdo) and growers (Elite AE)	-Strong processors - Rozafa and Poseidon
	Nascent producer groups (<i>few, some, many</i>)	-Few including the Djati association of 210 farmers in Djati; and groups formed by FAO	-Some groups exist, but they are weak	-Some including HortiGora, Adriatic Producers Group, Myzeqeja Federation	-Few groups organized by wineries or FAO (near Durres)	-One group in Peshkopi	-Few.	-Few if any producer groups -EPCA processor assn	-Open water harvesters have groups but few if any exist for growers -Fish processors assn
	Results by 2012 (<i>Y or N</i>)	-Yes. Large area in production and government is supporting the planting of new seedlings	-Yes. Seasonal crop with some local knowledge of production	-Yes. Seasonal crop with some local knowledge of production	-Yes. Vines are already in the ground and MoAFCP is supporting increased production	-Existing production base is relatively small -4 year lag from planting to harvest	-Yes. Large area in production and government is supporting the planting of new seedlings	-Yes. Seasonal crop -Some local knowledge of production -Shortage of wild harvested	-Possibly with a major effort
	Capital requirements (<i>low, medium, high</i>)	-Medium to High. Medium for existing groves which need improved management; high for new groves, but with MoAFCP subsidy	-Low start-up costs. Mechanization would add cost if land consolidation can be achieved through producer cooperation	-Medium. Greenhouses, tunnels, drip irrigation, etc require capital input	Medium. Three years to harvest for new vines plus capital investment, but with MoAFCP subsidy -Existing vines investment is low	-Medium. Tree planting and management.	-Medium for existing groves - need improved management; high for new groves including lag to harvest, but with MoAFCP subsidy	-High for the fresh herb market -greenhouse production -Low for bulk market - open field	-High for all categories of fish farming and marketing
Development Criteria	No. of farmers engaged in sector	270,000	105,000	215,000	37,000	35,000	305,000	150	85 trout, 47 mussel, 11 koci, and 1 shrimp farms
	Potential area in production 2012	-3.6 to 4 million trees by 2012	-9,500 ha to 10,999 ha by 2012	-21,300 ha to 22,000 ha by 2012	-5.22 to 6.2 million vines by 2012	-622,000 to 682,000 trees by 2012 -2,200 ha chestnut plantation	-5,365 to 8.2 million trees by 2012	-200 ha to 1000 ha cultivated -15 ha to 25 ha greenhouses	-No data available
	Potential to increase incomes	-Good. From increased yield per tree, post harvest management, collective input purchase and marketing	-Good. Increased production and improved quality with fertigation and new varieties for high-value export market	-Good. Increased production and quality for domestic market -Cost savings from collective marketing	-Good. High-value commodity, especially table grapes -Consolidation maintenance services/mechanization	-Average. Wild harvesting adds to income but has low returns -Intensive production could be very profitable	-Good. A high-value crop, with low operating costs in established orchard -Consolidation maintenance services/mechanization	-Good. Fresh herbs are high-value and can increase efficiency -Bulk herbs can be grown on marginal lands	-Good. High-value product and can upgrade fish production facilities and improve feed
	Potential to increase productivity (yield/ha)	-Good. From improved tree management -Production is now 11.2kg/tree, potential to increase to 20 kg/tree	-Limited. Possible from land consolidation, fertigation, etc. -31.4 t/ha with potential of 35 t/ha	-Good. Field vegetables now 18.2 tons/ha potential of 20 t/ha -Greenhouse varies between 48.7 and 96 t/ha	-Good. Introducing higher-yielding varieties -Production now 9.96 t/ha with potential of 10.1 t/ha	-Good. Improve tree management.	-Good. Install irrigation, improved pruning, pest control, fertilization -Production 18.9 t/ha	-Good. For fresh market consolidating production, improve technology	-Improved production methods would increase efficiency

Domestic demand in the table above was measured by both potential for import substitution and local knowledge of existing demand. The bar graph in Figure 2 below drawn from trade statistics² demonstrates the increasing trend for imports of agricultural products which have potential for production in Albania. These trends clearly demonstrate the potential for AAC activities to impact import displacement by focusing on increasing domestic production of these products. Specifically both tree fruits (including apples, pears and quinces, mandarins, citrus, and peaches) and vegetables, which are currently imported in high volume, present good opportunities for increasing domestic production for import displacement. While the import of olive oil, grapes, and nuts are relatively small, the fact that these imports are increasing and their high potential for domestic production also indicate good potential for import displacement.

Figure 2. Albanian imports of High-Value Agricultural Products



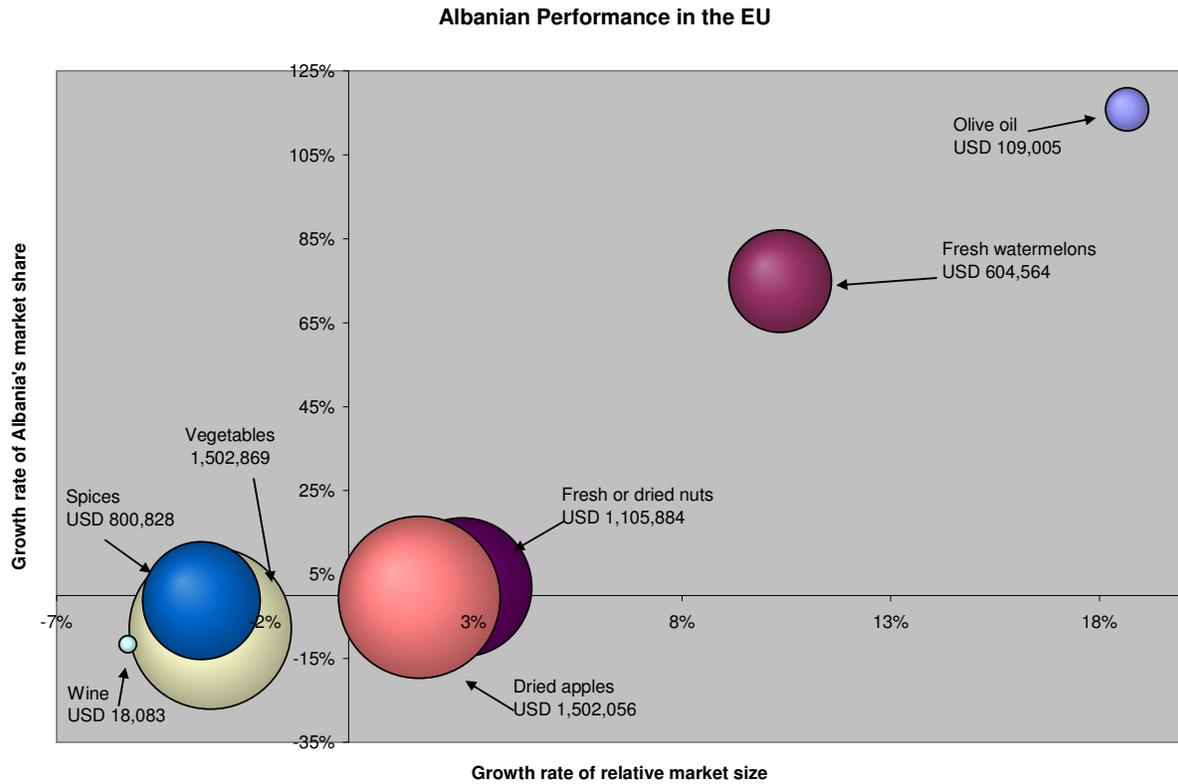
The data for the measurement of export market demand was obtained from trade data analysis conducted using the Global Trade Atlas. Figure 3 below presents the overview analysis of the performance of Albania’s agricultural exports in the EU market³. The x axis shows the relative growth of the subsector market compared to the overall EU market. The y axis shows the relative growth of the Albanian share of that subsector market. Products in the right two quadrants of the chart – olive oil, watermelons, nuts, and dried apples (the only tree fruit product exported to the EU in significant volume) – enjoy strong demand in the EU market. Trade promotion efforts for these products have high potential for success. Some of Albania’s leading

² This data from the Global Trade Atlas includes all reporting countries, which excludes some of Albania’s key regional trading partners such as Serbia, Macedonia, and Bulgaria.

³ The data includes exports to Croatia and Serbia, but excludes Macedonia, and Bulgaria.

traditional exports including herbs and vegetables are in shrinking demand in the EU, but their relative size and the fact that they are both on the edge of increase market share in the EU demonstrate potential for improvement.

Figure 3. Analysis of Albania’s Performance Using the Global Trade Atlas



RESULTS

This data collected on the relative competitiveness of Albanian products in both domestic and export markets as well as the potential impact of the different sectors on project objectives are presented in Table 3 on the following page. As can be seen in the final row of the table the sectors that raked the highest across the selection criteria are vegetables, herbs, olives, melon, and tree fruit.

SELECTED SECTORS

Vegetables

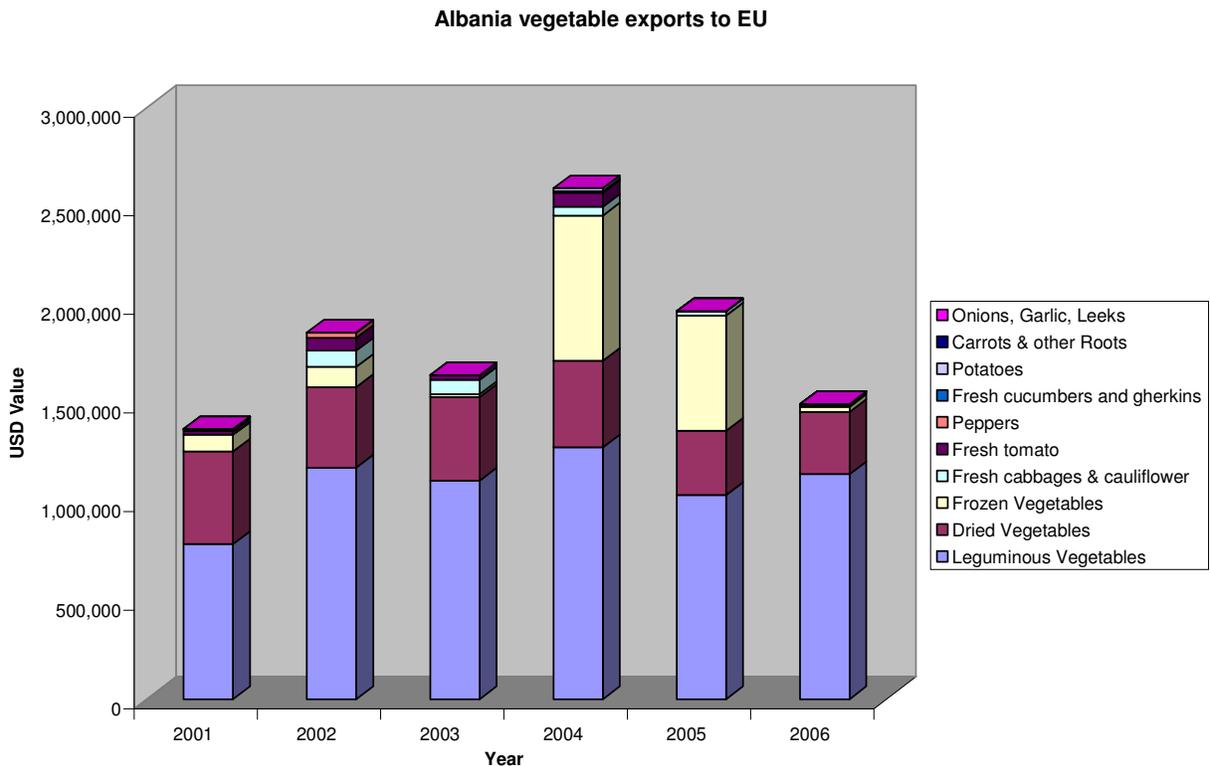
The vegetables subsector is a broad category that will be narrowed through the selection of two to three commodities or groups of related commodities. This value chain selection will be completed during the value chain assessment phase of the project. That said, the subsector selection analysis provided some indication of commodities with high potential. Good opportunities are present in both the domestic and export markets. In the domestic market, there

Table 3. Subsector Selection Ranking

		Weight	Olives		Melon		Vegetables		Grapes		Nuts		Tree Fruit		Herbs		Aquaculture	
			Rank	Final	Rank	Final	Rank	Final	Rank	Final	Rank	Final	Rank	Final	Rank	Final	Rank	Final
Competitiveness	Estimate of unmet domestic market demand	5	4	20	1	5	5	25	3	15	1	5	5	25	3	15	3	15
	Estimate of unmet export market demand	4	3	12	5	20	4	16	1	4	3	12	1	4	4	16	2	8
	Current excess processing capacity	3	4	12	2	6	5	15	2	6	1	3	3	9	4	12	3	9
	Forecast processing capacity in 2012	1	2	2	3	3	3	3	2	2	1	1	2	2	3	3	2	2
	Degree of product differentiation	2	2	4	3	6	2	4	2	4	2	4	2	4	4	8	1	2
	Untapped Value Added	3	4	12	4	12	4	12	2	6	3	9	2	6	4	12	3	9
	Transportation/ Distribution	2	3	6	1	2	1	2	1	2	4	8	3	6	4	8	1	2
Feasibility	Lead firm(s) present	4	2	8	3	12	4	16	3	12	1	4	2	8	4	16	4	16
	Nascent producer groups	3	2	6	3	9	3	9	2	6	1	3	2	6	3	9	1	3
	Results by 2012	5	4	20	5	25	5	25	4	20	4	20	5	25	4	20	2	10
	Capital requirements	2	3	6	5	10	4	8	2	4	3	6	3	6	4	8	1	2
Development Criteria	No. of farmers engaged in sector	4	4	16	3	12	4	16	2	8	1	4	4	16	1	4	1	4
	Potential area in production 2012	2	3	6	4	8	4	8	3	6	2	4	5	10	4	8	2	4
	Potential to increase incomes	5	4	20	5	25	5	25	4	20	2	10	4	20	5	25	4	20
	Potential to increase productivity (yield/ha)	3	4	12	2	6	3	9	2	6	2	6	4	12	3	9	2	6
Total Score				162		161		193		121		99		159		173		112

is good potential for import substitution through the production of a mixed group of high-value horticulture products for the domestic fresh and processing sectors. The export market presents other opportunities. The data for vegetable exports to the EU from 2001-2006 are presented in Figure 4 below. There is high variability in value of exports from year to year, indicating a lack of firm export market linkages. Leguminous vegetables (specifically kidney beans and white pea beans) comprised over 50 percent of Albanian vegetable exports to the EU in 2006. AAC will investigate this value chain and determine whether additional gains in productivity and market linkages can be leveraged off this existing export market.

Figure 4. Albanian Vegetable Exports to EU



Herbs

The cultivated herb subsector presents opportunities in both the high-value fresh herb market as well as the cultivation of bulk herbs that are traditionally wild harvested. Greenhouse production of high value fresh herbs in for export is already taking place in Albania but is fairly limited and could be expanded. Field production of bulk herbs is being adopted because of the potential to reduce production costs in comparison with wild harvesting, which has high harvesting and transportation costs.

Melons

Melons are a strong export product from Albania with much of the exports going to the EU and Serbia and other regional neighbors. To date much of the exports have been focused on

watermelon, but there may also be export opportunities for other varieties of melon as well as improved watermelon varieties such as seedless watermelons.

Olives

Olives provide opportunity for import displacement of olive oil as well as table olives. The domestic processing industry complains of difficulty obtaining raw olives even though there are 3.6 million olive trees planted in Albania. The majority of these trees have had little or no maintenance and thus have very low yields. The MoAFCP is promoting the expanded production of olive trees through subsidies for planting seedlings, which should result in increased production. The AAC project will also focus on improving grove management and post-harvest handling to improve the efficiency of production.

Tree Fruit

In 2006 Albania imported over US\$18 million in tree fruit from the EU. At the same time, Albania has over 5.4 million fruit trees planted, but as with olives, there is little grove management and an inefficient distribution mechanism. The AAC program will focus on import displacement of tree fruit by building the capacity of the local supply chain to meet the quality demands of the market.

NEXT STEPS

Upon approval of the proposed subsectors, the AAC team will initiate more detailed value chain analyses to identify all key actors in the chain from input supply to final retailer, constraints and bottlenecks in the value chain, and potential solutions to overcome these constraints. The information from this analysis will provide the input for the Commodity Assessment Plans, which will lay out our the AAC strategy and specific activities for achieving AAC objectives within each value chain.

Annex A

Reference List

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