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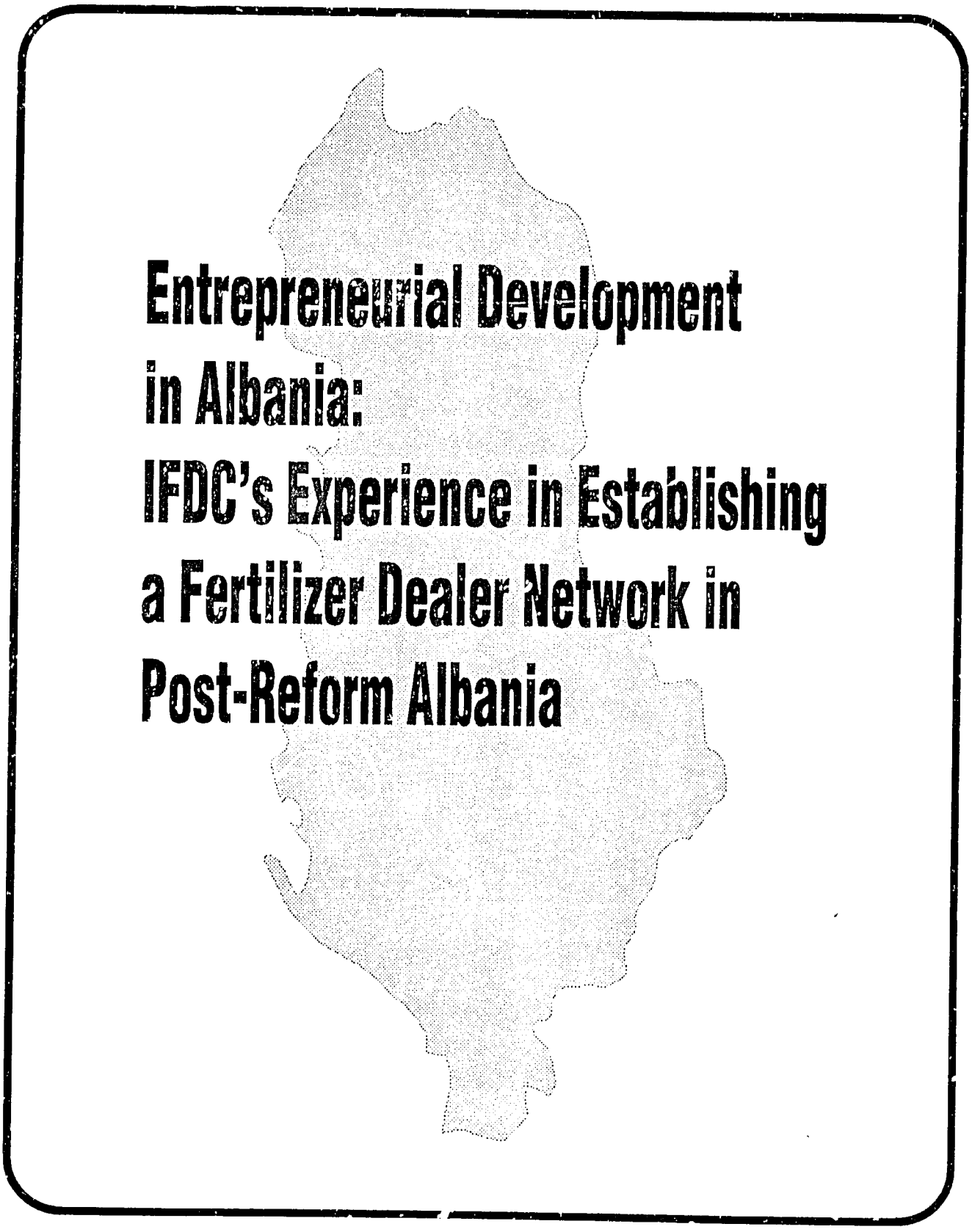

Entrepreneurial Development in Albania: IFDC's Experience in Establishing a Fertilizer Dealer Network in Post-Reform Albania

International Fertilizer Development Center

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Interim Report on Dealer Development and Training During Phase One of the Emergency Supply of Fertilizer to Albania (March-July 1992)

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Project Assessment

The primary accomplishments of this project were as follows:

1. **Provided an Emergency Supply of Fertilizer to Albanian Farmers**
No other supply of fertilizer was available for the spring and summer crops. Many farmers were able to buy urea at prices which were no more than 25% to 35% of world market prices. This undoubtedly increased farmers' income and increased crop production.

2. **Created a National Network of Private Fertilizer Dealers**
These dealers who now have commercial experience have potential for marketing not only fertilizer but also other agricultural inputs such as pesticides, seeds, and agricultural machinery. The project, in effect, made businessmen of many of the agricultural staff who had previously worked in the now defunct cooperative farms. The combination of their agricultural and commercial experience should make them natural candidates for distribution of any inputs given as aid no matter what the source. They represent a distribution channel that can achieve government economic aims without using scarce government resources which may best be used elsewhere.

3. **Transferred Entrepreneurial Attitudes and Skills**
Winners in the auctions now have the knowledge and capacity that will make them change agents in their areas. They are examples to others in the rural economy of how the free market works and how those who take risks can profit. If dealers continue to seek and exploit opportunities, as rural leaders they can be the engine of development in their areas.

In addition to these two main achievements of the project, there were the following ancillary benefits. The project served to:

a. **Catalyze the Development of a National Credit Program for Fertilizer Dealers** – In the process of developing and administering its credit program, BAD not only made money but also learned important lessons about how credit works in a free economy.

b. **Support the Private Transport Sector** – Much of the fertilizer was carried by private trucks. The business that the project gave them came at a critical time because many trucks had been recently privatized from state organizations.

c. **Use Dormant National Transportation and Port Facilities** – Many of Albania's transportation facilities had become dormant during the period of the transition and the Projects' use of them put life into their operations. In particular, the use of rail to transport fertilizer to Vlora was successful in this direction. Despite many warnings that security would be impossible for such shipments, the Durres-Vlora rail shipment was successful.

There were many skills transferred to Durres port personnel such as the bagging operation. IFDC's operations used many of the port's facilities and staff that had been idle for some time, and the same may be said about the Vlora and Saranda ports. The latter port had not received significant shipments for several months.

An important achievement of IFDC's activities in this area (as important perhaps as the use of these underutilized facilities) was that IFDC's operations removed the attitudinal constraints arising from perceptions that such facilities could not be used under existing social and political conditions.

d. **Focus National Attention, Through Media Controversy, on the Commercialization of Input Supply** – The media highlighted the necessary shift of economic activities from state-operated distribution to the private sector. The controversy resulted in necessary thinking by all Albanians from policymakers to farmers.

e. **Initiate the Use of Aid Techniques That May be Replicated Elsewhere** – The auctions were found to be an effective way of catalyzing entrepreneurial capacities and developing a market for fertilizer. The project's use of media and systematic orientation was a useful experiment whose lessons should have validity elsewhere.

Introduction

The primary objective of this United States Agency for International Development (USAID) project is to develop open competitive marketing for fertilizer in Albania. The Emergency Fertilizer Supply effort administered by the International Fertilizer Development Center (IFDC) in the spring of 1992 was planned and managed consistent with this objective. The provision of emergency fertilizer to Albania through a series of auctions held in April and May was the first phase of this project, which is expected to be multiyear in scope.

IFDC's approach to this initial phase emphasized immediate competitive marketing channels. It was decided from the beginning that this approach was likely to be more successful in achieving the project's aims. More gradual approaches utilizing the existing

organizational resources of devolved state enterprises were rejected because they would make it more difficult to involve the private sector in the long run. The risk taken in this approach was that newly identified private firms might not be able to market emergency fertilizer. The performance of the recently established private sector has subsequently justified this decision.

IFDC's first efforts in Albania concentrated on identifying entrepreneurs, either individuals or companies, that had the capability to market the emergency fertilizer. IFDC's early work to identify entrepreneurs found that, because of the many years of a command economy, there were very few private individuals or companies who had commercial experience and financial capacity. In addition, the existence of a well placed and advantaged system of state enterprises, Agro-Commercial Enterprises (ACE), complicated the process of developing a system of private dealers. However, ACE organizations did not have any more commercial experience than individuals who were contacted; the ACE organizations had been primarily distribution agencies for government allocation of agricultural inputs and other items needed in state-managed agricultural production.

At the end of the 4-month effort, the project had created a national dealer network covering all of Albania's districts except one. This dealer network consisted of 150 dealers or major purchasers, of which 115 were private individuals or companies. All of these dealers carried out basic commercial activities with which they had no previous experience. They bought fertilizer through a competitive process of auctions; arranged credit, transport, and warehousing; developed sales strategies and, in some areas, developed intense competition, which required them to react and adjust to make profit.

These entrepreneurs, among the first in Albania to market a commercially important commodity nationwide, were identified and developed through a process of orientation and training–a process that not only had to impart technical knowledge but also change attitudes and concepts. These psychological constraints were as limiting, if not more so, as those arising from the limited resources available in the Albanian economy. The primary elements of this process were a high profile media campaign with attendant controversy, systematic orientation of potential dealers, and the auctions themselves which were, in effect, an educational process–a case of learning by doing.

Early Project Identification and Assessment of Prospective Dealers
The Dajti Hotel Discussions

IFDC as the administrator of this project catalyzed the development of entrepreneurs, which took place in a context of the uncertain and volatile transition from a command economy to a free market system. The situation for Albania was unusual even for Eastern European economies because the system was both autarkic and communist. Albania's economy had been committed to Stalinist economic concepts and did not

participate in any of the reforms that came to other parts of Eastern Europe subsequent to the Khrushchev Period of the late 1950s and early 1960s. Entrepreneurial development during the period of the project thus faced systemic and psychological constraints that evolved during 45 years of authoritarian government when even the smallest concessions to individual effort, e.g., personal holdings of livestock and garden plots, had been progressively reduced.

The Emergency Fertilizer Supply work to identify potential dealers began in December 1991 when IFDC team members tried to meet anyone that might have sufficient interest and capacity to market fertilizer provided by USAID. Team members found that identification of potential entrepreneurs by word of mouth or contacts through the local "Chamber of Commerce" could be extremely difficult. Private-sector activity at that time was limited primarily to consumables that were perceived by Albanians to be luxuries. These included such items as alcoholic beverages, cigarettes, chocolate, and soft drinks. Additionally, those who appeared to have financial resources were circumspect to discuss their business dealings because, like many Albanians at the time, they were unsure of the future course of their government.

Subsequent to an interview of IFDC staff on Albanian National Television in January 1992, team members met with 31 individuals (Dajti Hotel Discussions) who responded to a televised invitation to explore the possibilities of becoming fertilizer dealers. These discussions centered on IFDC's prospective program as well as assessment of participants' backgrounds, interests, commercial experience, and assets. Most participants were former employees of defunct cooperative farms and had no experience in business. Some had had recent experience selling vegetables subsequent to the government liberalization of certain agricultural commodities, but only one had significant business experience, having imported various consumables from Greece. Their financial assets were extremely limited, but many owned a house, land, and/or warehouse resulting from privatization of the collective farms where they had been employed.

Much of these discussions focused on explaining the free market and how it should function with regard to marketing of fertilizer. Because of the lack of exposure to commercial activity and distrust of the existing government, participants had many reservations and fears. Additionally, there were unrealistic expectations concerning what the project would provide in terms of assistance.

Among the concerns of the participants were:

1. Fears about financial risks particularly where recently acquired assets might have to be mortgaged to obtain credit for purchase of fertilizer.

2. Fears about adequacy, availability, and cost of transport.

3. Reservations concerning the concept of selling donor-furnished fertilizer, particularly since politicians from both major parties had promised farmers that fertilizer would be given free.

4. Fears concerning possible future government intervention that might undermine the private-sector involvement in fertilizer marketing and any personal efforts that participants might undertake as fertilizer dealers.

5. Fears about the higher prices that were expected as a result of liberalization of fertilizer marketing activity. In particular, participants expressed concern that farmers might not be able to purchase urea if prices exceeded the 2.0 lek/kg ceiling fixed by government for sales to private farmers.

Of the 31 participants of these discussions, 16 subsequently won at IFDC administered auctions.

IFDC's Media Campaign

Early efforts at identification of entrepreneurs were not encouraging. Contacts made to find capable individuals or companies were hindered by general reluctance to discuss business and financial matters or the unwillingness of such contacts to bring forward others who would be possible competitors. As a result of these difficulties, IFDC contacted the agricultural commentator of the Albanian National TV, who aired an interview of the IFDC team. This began a relationship between IFDC and the media, particularly the National Television Network, which was critical in the project's work to identify potential dealers.

IFDC's media involvement can be categorized as follows:

1. *TV Documentaries*–During the period of the project, IFDC was an active participant in three major TV programs (all broadcast nationally) of between 20- and 30-minute duration. In these programs, IFDC's program and concepts were broadcast in detail to the more than one million viewers who watch evening television.

2. *TV News Items*–Several times during the course of the project, IFDC's activities were publicized through brief news stories, which added to the high profile of documentaries and gave further credibility to the project. Among the various news items in which IFDC's activities were covered were IFDC's meeting with the Director of the State Bank of Albania, training sessions at the orientation, and the Durres Auction.

3. *Radio Interviews*–Three interviews supporting IFDC's programs and concepts were given. Two interviews were given via the national radio based on IFDC-submitted

questions and answers and one through a regional station (Radio Kukes) was transmitted live. All supported concepts were given in TV documentaries. In addition, the regional broadcast through Radio Kukes solicited participants in the disadvantaged Albanian North-East (six districts), where there had only been one winner in the first auction.

4. *TV and Radio Notifications*–Announcements concerning the timing and venue of both sets of auctions were given several times during the week preceding auctions. Several announcements were also arranged for the orientations, which were conducted in Tirana (Soil Science Institute). Initially, the auction notifications were distributed through a formal process–involving the Ministry of Agriculture–to the local news agency but were subsequently arranged on a paid basis directly with the National TV and Radio.

5. *Printed Media Notifications*–The initial notification that was distributed through the Ministry of Agriculture's press bureau was made available to all newspapers in Albania; however, none chose to carry it. Subsequently, paid notifications were arranged through two major newspapers. In addition, the notification for the first auction was made in the major economic magazine, *the Albanian Economic Tribune*.

Auction Orientation

Orientation

Based on the Dajti Hotel discussions, IFDC developed and conducted a systematic orientation for prospective participants. Two orientation sessions of 3 days each were carried out in April with the first day devoted to formal presentations in various areas and the following 2 days reserved for individual consultations. Presentations were given in the following.

1. **Statement of Project Objectives**–Because of the promises made by politicians concerning free fertilizer and the government's fixed price policy for fertilizer, the orientation session allowed much time for explaining the free market philosophy underlying the project and the auctions. It was emphasized that the project was based on the concept that the market and the auction participants–not government–would establish prices and allocate fertilizer among regions.

2. **Auction Terms and Procedures**–While the fertilizer auctions were not the first auctions in Albania, they were among the first and were unique in their size and procedure. Very few of the participants had any previous experience with auctions, and the fertilizer auction's terms and procedures had to be clarified not only during the first day's presentation but also on an individual basis. Some individuals attended both orientations or returned more than once for individual consultation.

3. **Credit and Financial Guaranty Arrangements With the Bank of Agriculture and Development (BAD)** – The financial guaranty documentation, which was required for participation in the auction, was explained to the prospective auction participants. In addition, the BAD policy on providing credit to auction participants was described.

4. **Transport Arrangements for Coordinating and Authorizing Fertilizer Pickup by Winning Bidders**

5. **Monitoring Survey** – Prospective auction participants were informed of the urea monitoring survey, its purpose, and the types of questions that would be asked by enumerators. This was done to minimize reluctance to be responsive when IFDC enumerators came to gather data.

Attitudinal Constraints of Prospective Auction Participants

Prospective auction participants came with many ideas of how fertilizer should be distributed under the new democratic regime. For many, freedom meant "for free"; that is, that their newfound freedom meant that commodities like fertilizer should be provided free as aid. Some farmers, hearing about the orientation, brought tractors with trailers to the orientation venue expecting to pick up "free" fertilizer that the U.S. Government was providing to Albanian farmers. Much of the time of the orientation was spent in discerning the many expectations that attendees at the orientation session had concerning this particular aid project but also concerning what a market economy meant. There were many fears, and a large effort was required to reassure prospective auction participants that they could participate and win. Among the many fears were that:

1. "Big money" people would buy all the fertilizer.

2. The state enterprises (ACE) or state farms would monopolize the auction because of the access they had to government finance.

3. Prices at the auction would be so high that farmers would not be able to purchase at retail prices that covered purchase, transport, and finance costs.

4. There would not be enough trucks available through private and government sources to transport winnings to sales areas.

5. They would not be able to raise the 20% cash requirement to qualify for BAD loans.

Ultimately, these fears proved to be groundless in as much as private individuals and enterprises were the major winners at the auction. In addition, they were able to transport their fertilizer from port to their sales locations where they sold fertilizer to farmers at prices that brought most of them a profit.

Some Characteristics of Participants in the Orientation Session

More than 200 individuals attended the orientation session. Of these, 185 completed questionnaires concerning the type of organization they represented and their various assets. The orientation was dominated by private individuals (82%). The remaining participants were either ACE (10%) or state farms (8%). The majority (74%) had already acquired juridical status, which was a requirement by the BAD for obtaining credit. Less than half (48%) had bank accounts, and more than half (61%) said that they had cash assets. However, the financial resources available to them were not significant, at least for those who were fully responsive with exact amounts.

Participants possessed significant real assets. More than 84% owned houses. Some said that they had more than one house, but this may reflect joint resources of partnerships. Nearly 70% stated that they owned land, and almost 60% said they had warehouses.

The Auctions and Their Implications for Private Dealers

Performance of Private Firms in the Auctions

In general, the auctions showed that the nascent private sector was able to respond in a very short time to true opportunity. The strength of private individuals and firms was surprising in the first auction. Their position strengthened even more in the second auction. Some measures of their competitiveness are as follows.

1. **Percentage of Total Fertilizer Auctioned Going to Private Firms** – Private firms in the first auction won 101 lots or more than 50% of the total. In the second auction, they won 146 or about 73% of offered lots. Cumulatively, the private sector gained about 61% of the emergency fertilizer. Importantly, competition from private firms increased as the auctions progressed, reflecting their growing self-confidence and capability.

2. **Growth in Numbers of Private Firms Winning Lots** – Private firms were increasingly successful as the auction progressed. There were 64 private winners in the first auctions amounting to 75% of all winners. Private winners increased to 90 in the second auction and accounted for almost 80% of total winners.

Prospective Auction Participants: Characteristics

Characteristic	Number	Positive Responses (%)	Total Orientees (%)
Type of enterprise			
Private	151		82
ACE	18		10
State farm	16		8
Juridical status	136		74
Assets: Cash	112		61
Amount not specified	28	25	
> 1,000 ≤ 5,000 (lek)	57	51	
> 5,000 ≤ 10,000 (lek)	12	11	
> 10,000 ≤ 50,000 (lek)	7	6	
> 50,000 ≤ 100,000 (lek)	2	2	
> 100,000 (lek)	6	5	
		100	
Assets: Bank			
Have bank account	89		48
Amount not specified	47	53	
> 1,000 ≤ 5,000 (lek)	23	24	
> 5,000 ≤ 10,000 (lek)	6	7	
> 10,000 ≤ 50,000 (lek)	4	4	
> 50,000 ≤ 100,000 (lek)	2	2	
> 100,000 (lek)	7	8	
		100	
Assets: House/apartment	155		84
One house	135	87	
More than one house	16	10	
Apartment	4	3	
		100	
Assets: Land	129		70
Not specified	12	9	
> 0.5 ≤ 1.0 ha	40	31	
> 1.0 ≤ 2.0 ha	35	27	
> 2.0 ha	42	33	
		100	
Assets: Warehouses	109		59

Distribution of Bid Winners by Category for First and Second Auctions

Category of Purchaser	Number of Bid Winners	
	First Auction	Second Auction
Private	64	90
State enterprise	17	18
State farm	4	5
TOTAL	85	113

Note: A distinction is made between winning bids and dealers. The apparent discrepancy in some numbers is a result of some dealers winning more than once in either of the two series of auctions.

Other Trends and Events

1. **Increase in Numbers of Bidders and Winners**–The general competitiveness of the auction grew as the auction progressed. There were 361 bids in the second auction as compared with 345 in the first. Winning bids also grew slightly from 115 to 117. At a minimum, these numbers reflect a sustained interest in purchasing fertilizer through the process.

   In terms of dealer participation rather than number of bids, there were 48 winning bidders that placed bids in both auctions. There were 36 winning dealers in the first auction only and another 66 in the second only.

Purchasers' Participation in Auctions

Buying Event	Buyers	
	Number	Percentage
First auction only	36	24
Second auction only	66	44
Both auctions	48	32
TOTAL	150	100

The majority of winning dealers was small. The bulk of all dealers (69%) won only one or two lots (50-100 mt). About 20% of winning dealers (winning more than

three lots) bought 50% of the urea. Those winning two or three lots (37% of winning dealers) amounted to 33% of auctioned fertilizer. One lot winners (43% of winning dealers) took only 17% of the fertilizer sold.

Distribution of Buyers and Quantity Bought

	Buyers		Urea Bought	
Lots Bought	Number	Percentage	Number of Lots	Percentage
One lot	65	43	65	17
Two lots	39	26	78	20
Three lots	16	11	48	13
Over three lots	30	20	193	50
Total	150	100	384	100

2. **Price Increase in Average Price of Lots**–There were large variations in the bid prices for winning lots. In the first auction the high bid was 5.36 lek/kg, and the low bid was 1.1 lek/kg. In the second auction, the high was 4.88 lek/kg and the low 1.88 lek/kg. However, increasing competition is indicated in the increase in average price per lot. In the first auction, the average price for winning lots was 2.33 lek/kg; this increased to 2.52 lek/kg for the second auction. Some dealers who won with high bids did not take delivery of their fertilizer.

3. **General Competitiveness and Attempts at Collusion**–While the auctions were intensely competitive for fertilizer supplied to dealers at Durres Port, there was much less competition in those auctions for fertilizer supplied at Saranda, Vlora, and Pogradec. Prices were lower on average and, because there was a limited number of bidders in those auctions, there was a tendency to collude to fix low winning bids. The low prices of the first day of the Saranda auction resulted from collusion among the few competing bidders. Similar attempts to fix low winning prices were made for Vlora and Pogradec lots in the second auction. In the second auction, some day's auction results were canceled as a result of bidder's collusive behavior.

Private Dealers' Attitudes About the Auctions

The marketing section of the project conducted a survey of private dealers after the auctions to assess dealer behavior and performance. One section of the questionnaire dealt with dealer attitudes concerning the auctions. Three basic questions were asked: Did they think the auctions were fair? Were the auctions sufficiently simple for them to participate

easily? If auctions were held again in the future, would they be interested in participating? The results were overwhelmingly in favor of the auctions. About 97% of the private dealers surveyed (88 dealers from throughout Albania) thought the auctions were both fair and simple. Slightly less, 95%, thought they would participate in future auctions. The few respondents who thought that the process was unfair referred to the canceled results of the second auction.

Auction Policies That Supported Dealer Development

In retrospect certain policy decisions supported dealer development. Among the most important of these were:

1. **The Auction was Open to All Interested Parties**–This policy ensured that there would be no question of IFDC's favoring one group of participants over another. It was extremely important that the auctions be seen as fair by all parties because of the highly volatile politics at the time.

   As the situation developed, pressures grew to exclude ACE and other state enterprises because they were perceived to have an unfair advantage. However, by refusing to make any changes in this policy, the project afforded the private firms the chance to prove themselves not only to observing external parties but also to themselves.

2. **Size of Bid Lots**–Early in the project, lot sizes of either 200 or 300 mt were considered, but later IFDC decided on a lot size of 50 mt. This decision undoubtedly increased participation by private firms, most of which won three lots or less divided between the two auctions. In effect, the small lot size reduced the cash requirement to qualify for BAD credit, thus enabling them to bid for and win one lot in the first auction; the profits from these wins in the first auction made other wins in the second auction possible.

3. **Limitation on Winnings**– Winnings were limited to 500 mt in the first series of auctions and 400 mt in the second. These limitations excluded the possibility of a few advantaged firms, such as the ACE, dominating the auctions. Early domination by a few firms whether private or otherwise would have likely led to unacceptable concentration in the market later. Many private winners now have financial resources that will allow them to compete with bigger firms or be in a position to function as their retailers.

Auction Circumstances and Arrangements That Hindered Dealer Development: Financial Constraints

1. **Participation by One Bank Only**–The Albanian Commercial Bank (ACB) and the Savings Bank declined to provide finance to auction participants. This decision hindered many of their customers in arranging credit for auction purchases inasmuch as they would have to approach a competing bank, BAD, for finance. ACB was also

unable to quickly provide statements guaranteeing the accounts of their customers. At least one important state enterprise had to delay its participation at the auctions despite significant financial resources because ACB was not able to rapidly provide a financial guarantee. For ACB customers to participate, they sometimes had to transfer money to a BAD account to either get credit or a financial guarantee.

2. **Limitation by BAD on Loan Size** – BAD limited credit to 100,000 lek for private dealers. While this was not a policy that excluded new winners or the return to the auctions of previous winners, in certain cases BAD did constrain the amount that participants could bid and win and limited the size of a dealer's business.

3. **Late Availability of Financial Guarantee Form in Isolated Areas** – BAD, in consultation with IFDC's Financial Specialist, developed a financial guarantee form that was made mandatory for auction participants. Certain isolated areas did not receive this form in time for the first days of the auctions. One firm was not able to participate in the Vlora auction because the local BAD branch (Tepelena) had not received the form. There were also problems with this requirement in the isolated northeast. Procedural changes for the second auction lessened this constraint.

The Fertilizer Dealer Network in Albania

The dealer network catalyzed through the Emergency Fertilizer Supply has wide geographical coverage. There are 150 dealers or major purchasers covering every district with the exception of Kolonja. Of these 150 dealers, 115 are private, 25 are state enterprises (ACE), and 10 are state farms (SF).

Geographic Coverage of the Dealer Network

Private dealers cover fewer districts than state enterprises but are found in abundance in those districts where fertilizer consumption is historically highest. Private dealers service 15 districts, while the ACE dealers are found in 22 districts. Mountainous areas in both northern and southern Albania consume limited amounts of fertilizer. These districts are generally serviced by ACE, though in Kukes and Puka Districts (northeast) and in two important districts of eastern Albania (Korca and Pogradec), only private dealers are providing fertilizer. The few state farms that won are largely concentrated in one district (Elbasan) where a progressive BAD bank manager assisted their participation in the auctions.

Fertilizer Dealers and Deliveries by Region and District

If fertilizer deliveries are analyzed on a regional basis, it is clear that there are significant numbers of dealers spread throughout Albania. There are four important patterns that emerge. They include:

1. Both fertilizer dealers and fertilizer deliveries are largely concentrated in central Albania. The central region (4 districts) had 60 or 52% of private dealers as well as 46% of total urea deliveries. Historically, this is a progressive area and in the past has consumed significant amounts of fertilizer.

2. The southwest (six districts of which the most important are Vlora, Fier, and Lushnja) was a second high-consuming area, receiving about 21% of the product and having 26 (14%) of the total dealers.

3. The southern region which is comprised of four districts had no private dealers and only 3% of fertilizer deliveries. These southern districts are mountainous and isolated except for certain river valleys. ACE dealers are the only dealers in these districts. Kolonja (which is included in the eastern region but could just as easily been put in the South) has no dealers – either private or ACE – and is also isolated.

4. The northeast, another mountainous area including the six districts of Puka, Kukes, Mirdita, Mat, Tropoja, and Dibra, follows the pattern of the southern region in that it is dominated by ACE (the exceptions being Puka and Kukes) and having a limited supply of fertilizer.

Number of Purchasers by Category and District

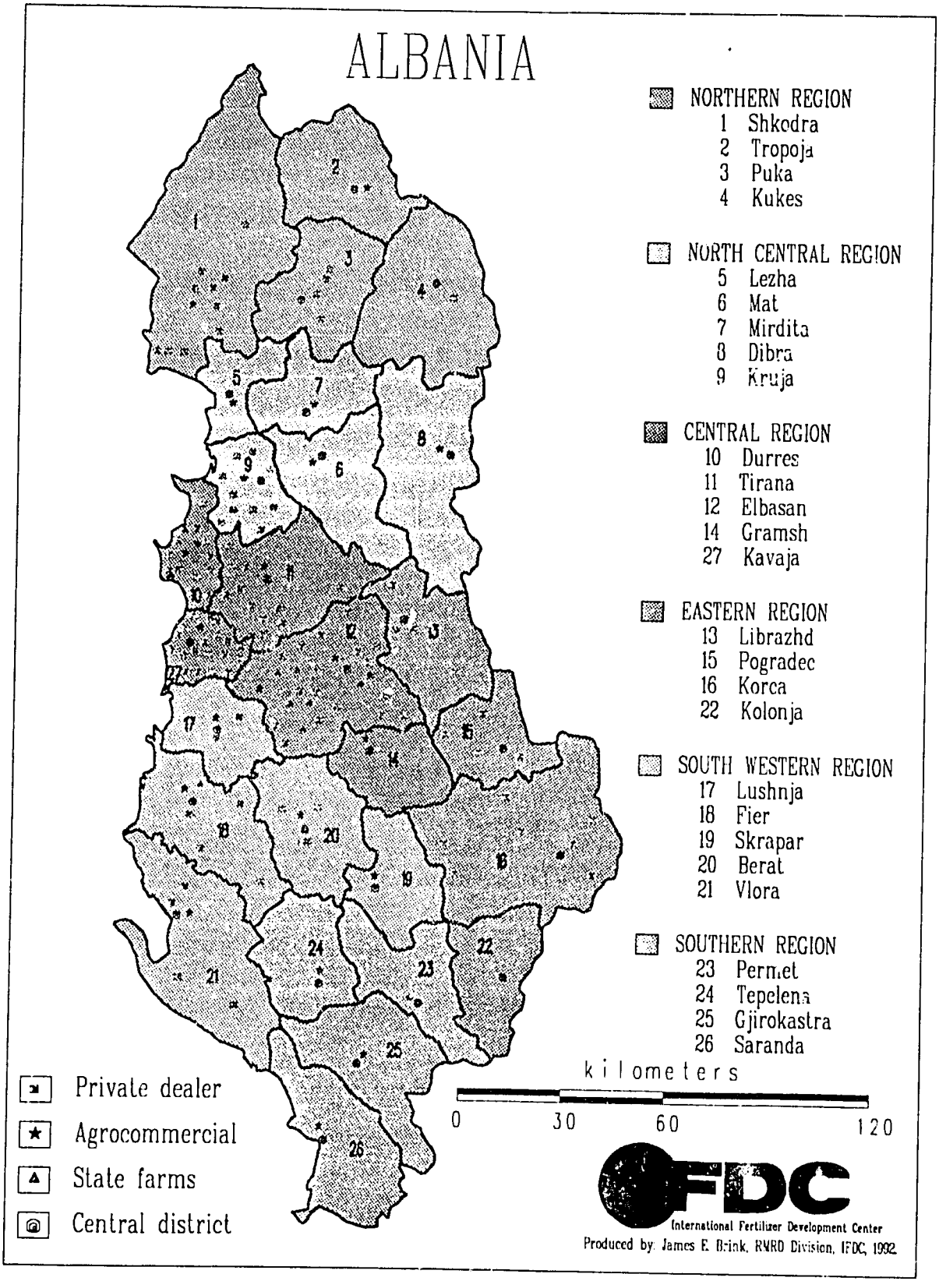
Region/District	Private	ACE	State Farm	Total
Northern				
Shkodra	8	1	0	9
Tropoja	0	1	0	1
Puka	3	0	0	3
Kukes	1	0	0	1
North Central				
Lezha	0	1	0	1
Mat	0	1	0	1
Mirdita	0	1	0	1
Dibra	0	1	0	1
Kruja	11	1	0	12
Central				
Durres	10	2	1	13
Kavaja	19	1	0	20
Tirana	11	1	0	12
Elbasan	20	3	7	30
Eastern				
Librazhd	3	1	0	4
Gramsh	0	1	0	1
Pogradec	4	0	0	4
Korca	8	0	0	8
Kolonja	0	0	0	0
Southwestern				
Lushnja	3	1	0	4
Fier	4	1	2	7
Skrapar	0	1	0	1
Berat	3	1	0	4
Vlora	7	1	0	8
Southern				
Permet	0	1	0	1
Tepelena	0	1	0	1
Gjirokastra	0	1	0	1
Saranda	0	1	0	1
TOTAL	115	25	10	150

Fertilizer Purchased by Region and District

Region/District	Number of Lots	Amount Purchased (mt)	Amount Purchased (%)
Northern			
Shkodra	34	1,700	8.85
Tropoja	1	50	0.26
Puka	3	150	0.78
Kukes	1	50	0.26
North Central			
Lezha	9	450	2.34
Mat	3	150	0.78
Mirdita	2	100	0.52
Dibra	2	100	0.52
Kruja	29	1,450	7.75
Central			
Durres	24	1,200	6.25
Kavaja	51	2,550	13.28
Tirana	33	1,650	8.59
Elbasan	68	3,450	17.70
Eastern			
Librazhd	13	650	3.38
Gramsh	2	100	0.52
Pogradec	6	300	1.56
Korca	10	500	2.60
Kolonja	0	0	0
Southwestern			
Lushnja	24	1,200	6.25
Fier	30	1,500	7.81
Skrapar	5	250	1.30
Berat	6	300	1.56
Vlora	16	800	4.16
Southern			
Permet	2	100	0.52
Tepelena	2	100	0.52
Gjirokastra	1	50	0.26
Saranda	7	350	1.82
TOTAL	384	19,200	99.98

Type of Enterprise and Their Lots by District

Region/ District	Private		ACE		State Farm		Total	
	Number of Dealers	Number of Lots	Number of Dealers	Number of Lots	Number of Buyers	Number of Lots	Number of Dealers	Number of Lots
Northern								
Shkodra	8	25	1	9	0	0	9	34
Tropoja	0	0	1	1	0	0	1	1
Puka	3	3	0	0	0	0	3	3
Kukes	1	1	0	0	0	0	1	1
North Central								
Lezha	0	0	1	9	0	0	1	9
Mat	0	0	1	3	0	0	1	3
Mirdita	0	0	1	2	0	0	1	2
Dibra	0	0	1	2	0	0	1	2
Kruja	11	19	1	10	0	0	12	29
Central								
Durres	10	14	2	8	1	2	13	24
Kavaja	19	45	1	6	0	0	20	51
Tirana	11	22	1	11	0	0	12	33
Elbasan	20	45	3	15	7	8	30	68
Eastern								
Librazhd	3	7	1	6	0	0	4	13
Gramsh	0	0	1	2	0	0	1	2
Pcgradec	4	6	0	0	0	0	4	6
Korca	8	10	0	0	0	0	8	10
Kolonja	0	0	0	0	0	0	0	0
Southwestern								
Lushnja	3	7	1	17	0	0	4	24
Fier	4	11	1	10	2	9	7	30
Skrapar	0	0	1	5	0	0	1	5
Berat	3	5	1	1	0	0	4	6
Vlora	7	10	1	6	0	0	8	16
Southern								
Permet	0	0	1	2	0	0	1	2
Tepelena	0	0	1	2	0	0	1	2
Gjirokastra	0	0	1	1	0	0	1	1
Saranda	0	0	1	7	0	0	1	7
TOTAL	115	230	25	135	10	19	150	384


ALBANIA
NORTHERN REGION
1 Shkodra
2 Tropoja
3 Puka
4 Kukes
NORTH CENTRAL REGION
5 Lezha
6 Mat
7 Mirdita
8 Dibra
9 Kruja
CENTRAL REGION
10 Durres
11 Tirana
12 Elbasan
14 Gramsh
27 Kavaja
EASTERN REGION
13 Librazhd
15 Pogradec
16 Korca
22 Kolonja
SOUTH WESTERN REGION
17 Lushnja
18 Fier
19 Skrapar
20 Berat
21 Vlora
SOUTHERN REGION
23 Permet
24 Tepelena
25 Gjirokastra
26 Saranda
Private dealer
Agrocommercial
State farms
Central district
kilometers
0 30 60 120
IFDC
International Fertilizer Development Center
Produced by: James E. Brink, RNRD Division, IFDC, 1992

Distribution of Fertilizer Purchasers and Quantity Bought by Region

Region	Number of Purchasers by Category			Fertilizer Amount	Total Fertilizer
	Private	ACE	SF	(mt)	(%)
Northern	12	2	0	1,950	10
North Central	11	5	0	2,250	12
Central	60	6	9	8,900	46
Eastern	15	0	1	1,450	8
South West	19	5	2	3,950	21
South	0	4	0	600	3

Breakdown of Dealers by Type of Enterprise

Three types of enterprises competed in the auctions: private firms, state enterprises (ACE and AgroImport), and state farms. Strictly speaking, state farms would not usually be considered dealers. However, because some of them engaged in sales to private farmers in their districts, they have been included as part of the dealer network. By type, the auctions resulted in the creation of 115 private dealers that won almost 60% of the fertilizer offered at auction. There were 25 state enterprise winners that took delivery of 35% of auctioned urea. There were 10 state farms that won at auction. Deliveries to them accounted for 5% of the total.

Concentration and Competition

Three competitive situations developed as a result of the auctions.

1. **Intense Competition**–The districts of Elbasan, Kavaja, Durres, Tirana, Kruja and Shkodra. These districts received sufficient amounts of fertilizer to develop highly competitive behavior including lowering prices and selling to districts having scarcity elsewhere. Perhaps this was best documented by the televised case of Elbasan, which was reported on national television. Their dealers complained of too much competition and incursions of dealers from outside districts. Prices dropped and some dealers began selling in adjacent districts of Librazhd and Skrapar.

2. **Moderate Competition**–Districts of Berat, Librazhd, Lushnja, Fier, Korca, Pogradec, and Vlora.

3. **Local Monopolies or Limited Fertilizer Availability**–The districts of Mirdita, Lezha, Tepelena, Gjirokastra, Skrapar, Saranda, Permet, Mat, Gramsh, Kukes, and Puka.

The market as it developed responded to correct these imbalances. Cross-district sales are an indication of how new fertilizer dealers sought sales areas outside their home district when the competition there was sufficient to lower sales and prices. Thus,

cross-district sales were significant from three intensely competitive districts to other areas. Dealers from Kavaja, near the port of Durres, were particularly active, selling to nine other districts. Elbasan dealers in an especially competitive situation sold to three nearby districts even though the additional transport costs were significant. Dealers from Shkodra sold to six other districts; some near their sales locations but others distant. Sales from Shkodra to Lushnja, Berat, Elbasan, Gramsh, and Korca probably result from resell of their winnings to dealers from those areas and who took delivery directly from the port of Durres.

Cross District Flows

Auction Buyers' District	Sold in Other Districts
Durres	Puka
Elbasan	Librazhd Skrapar Dibra
Shkodra	Kukes Mirdita Korca Elbasan Gramsh Lushnja
Fier	Berat Elbasan Lushnja
Vlora	Lushnja Fier
Korca	Gramsh
Kavaja	Lushnja Puka Korca Elbasan Gramsh Tirana Berat Shkodra Tropoja
Kruja	Puka Kukes

Dealer Profile and Activities

The following information on dealers is a result of a survey carried out by the marketing section of the project after virtually all deliveries (both first and second ships) to dealers had been completed, and most dealers had been selling fertilizer sufficiently long to be able for the marketing group to make some observations about how they were marketing. In addition, the survey questioned them on attitudes concerning efforts that the project had made in various areas.

Dealer Profession and Agricultural Experience

Most of the dealers had agricultural backgrounds. Over 56% had been agronomists with former cooperatives. Of those that had not been agronomists with cooperatives, many (20%) had been "economists" with rural-based state enterprises. Some (less than 10%) were still state employees in their areas. About 17% considered themselves to be farmers. Most private dealers had some experience with pesticides (74%) and when questioned about general agricultural experience, 70% responded positively.

Dealer Assets

Most dealers (71%) owned land as a result of the privatization of the cooperatives. Even more had a house or an apartment (95%). Ownership of warehouses was common (83%).

Media Impact on Dealers

When questioned about IFDC's media efforts, most private dealers surveyed by marketing assistants had seen or heard or read about IFDC before they participated in the auctions. The television documentaries were well known; 95% of the dealers had seen either the January or April programs or both. Radio, newspapers, and television notifications were less remembered, but still significant numbers of dealers were reached by them. Most dealers (95%) thought that the media was decisive or important in their decision to participate in the auctions.

Dealers' Awareness About Various Media Events

Media Event	Dealers Knowing About Event (% of Respondents)
1. TV documentary	
January only	15
April only	8
Both	72
2. Radio	83
3. TV notices	83
4. Newspaper	75
5. Important/decisive	95

*Dealers who thought media was either important or decisive in their participation in the auction.

Dealer Participation in the Orientation Sessions

Dealers generally participated in the orientation sessions and thought they learned much by them; 16 dealers had been to the Dajti Hotel discussions and 51 (58%) to the Auction Orientation sessions at the Soil Science Institute. Of the dealers participating in these orientation sessions, the majority (95%) thought they had been helpful or useful to their activities in the auctions.

Dealer Sales Strategies

Dealer sales strategies varied both in sales area and approach. About 80% said that they sold in more than one village and, in general, dealers sold in many villages. A significant number (26%) of private dealers surveyed sold in more than one district.

Most dealers (83%) said that they sold directly to farmers. Of those that sold directly to farmers, 85% sold from their warehouse, but some sold through other sales points using salaried individuals to sell to farmers in areas where they did not find it possible to be present. Salaried people were often friends and family who received either a daily or monthly wage to sell to farmers.

Other sales strategies included sales to state farms (17% of dealers surveyed), wholesale to other dealers (18%), and sales through retail outlets (18%). Retail sales were either made through independent subdealers who purchased with cash (47%) or on a commission basis (53%). Commissions to subdealers were about 5% of sales price.

Many dealers (31%) used more than one strategy to sell their fertilizer.

Sales to farmers were primarily (95%) conducted directly from dealers' warehouses or from their houses or houses of family or friends. Those who did not have their own warehouse generally stored fertilizer outside their homes until it was sold. Some dealers sold directly from trucks (21%). Those who sold from trucks typically did this in addition to sales from their warehouse.

Private Dealer Fertilizer Prices

Pricing by dealers varied. In general, there was some hesitancy on the part of dealers to price what the market would bear. Perceptions by farmers and others generally entered into their pricing decisions. Except in those areas where there was significant competition, prices generally rose during the period of the project. Most dealers (82% of dealers surveyed) sold at prices over 4 lek/kg.

Private Dealer Fertilizer Prices

Price Range (lek/kg)	Distribution of Dealers (%)
> 3.0 ≤ 3.6	2
> 3.6 ≤ 4.0	16
> 4.0 ≤ 4.5	37
> 4.5 ≤ 5.0	35
> 5.0	10
TOTAL	100

Private Dealer Profits

For many reasons, dealers were reluctant to discuss profits and when they did so they were conservative. Assuming that transport and finance were the primary costs, marketing assistants calculated profit based on information given by individual dealers. Profits were significant, ranging from 40% to 100% of purchase costs from auctions. Most dealers made significant profits on their short-term operations, but dealers in highly competitive districts such as Elbasan ultimately cut prices and profits to complete sales necessary to pay off bank finance.

However, the profits listed below do not take into account the recently instituted sales tax. This tax is levied on dealers on the basis of 10% of sales revenue (*not* profit) so for some these profit margins may be reduced. This tax applies to those who sold either to other dealers or state farms. Dealers who sold directly to farmers or who received cash directly from other dealers (wholesale transactions) will probably not have to pay what is a regressive tax on entrepreneurial operations. On the other hand, all cost information from dealers may be over inflated so that the overall profit picture should remain the same.

Dealers' Estimated Profit

Profit Range (lek/kg)	Dealers (%)
> 0.5 ≤ 1.0	19
> 1.0 ≤ 1.5	24
> 1.5 ≤ 2.0	31
> 2.0 ≤ 2.5	19
> 2.5	7
TOTAL	100

Dealer Development in the Future

Now that a fertilizer dealer network has been created in Albania, Project work in the future must: (1) seek to expand it through identification of new dealers; (2) deepen and extend its capabilities; and (3) protect it from government interference and/or competing projects from other donors not committed to immediate privatization of the market for agricultural supplies.

In the short term, the most important work of the Project will be to provide continuity in leadership and support. The relationships that the Project has developed with the new private firms must be sustained by continual interaction and support. The dealer network though established is still precarious, and inappropriate policies or programs by either government or other aid projects could hinder the privatization process. The Project must now fight to protect and sustain the dealers.

Other areas where the Project should involve itself are:

1. **Assist Private Firms in Establishing Commercial Relations With the Two Fertilizer Plants**
   The Fier nitrogen and Lac superphosphate plants began production in July. According to the Fier Plant manager's estimates, the plant can produce 6,000 mt of fertilizer per month. Even assuming that the gas supply is interrupted (because of unauthorized diversions to household heating) beginning in November, the plant will have produced up to 24,000 mt of fertilizer. If the plant is successful in maintaining its gas supply intact, this amount will be much higher.

   Marketing plant-sourced fertilizer should be the major challenge for the new dealer network. However, when recently asked about how it expects to market its productions, the Fier Plant managers said that they would sell through ACE because they were thought to be financially stronger. This attitude must be changed.

   Negotiating a role for new private firms and developing a strategy for their full participation in marketing plant production is *the marketing priority* for the next few months. Failure to establish a marketing role for private firms during the initial startup of the plant could seriously hinder the privatization process. The Project must negotiate equal opportunity for them to sell urea produced by the plant and its marketing component work to make them competitive in this new marketing challenge.

2. **Deepen Dealer Business Capacity**
   Dealers need technical advice, which is best given on a one-on-one basis, in such areas as financial and stock records, cost of services, pricing, promotion, and alternative retailing approaches.

3. **Develop a Package of Agronomic Practices That Can Increase Dealers' Capacity to be a Conduit of Technical Information to Farmers**
Most dealers have agricultural experience, and many (more than 50%) were formerly professional agronomists with cooperative farms. There is much potential to develop them into effective change agents for newly privatized farmers. Including dealers in the technological transfer process will strengthen their capacity to compete with ACE, which will likely continue to have an unfair advantage because of its access to government-supplied inputs, e.g., fertilizer produced by government-owned and managed factories at Fier and Lac. Additionally, including them in this process increases the number of active agents of technology transfer. Although a good extension system is important, knowledgeable fertilizer/ag-input dealers can provide an important push to technological change. This push comes from their need to build a long-term clientele, based on not only provision of inputs but also their ability to convince progressive farmers to purchase those inputs necessary to increased production.

With a private-sector approach, the dealer sells a crop production program – not just a product.

4. **Increase Private Participation and Winnings in Future Auctions**
The trend as the auctions progressed was for increased participation by private firms. This trend must be sustained through cooperation with the Albanian media, additional orientations, sessions, individual contacts, and increased commercial credit.

5. **Seek Distributor Role for Other Agricultural Inputs**
There are expectations that various aid agencies and donor countries will supply agricultural inputs other than fertilizer, e.g., pesticides, seeds, and agricultural machinery. The project must begin to negotiate with donor agencies to ensure that fertilizer dealers have the opportunity to market these products. IFDC will need to be the link between individual dealers and administrators of such aid programs.

6. **Assist Dealers in Developing Other Agriculturally Related Business**
Fertilizer sales typically is a seasonal business. In addition to selling fertilizer and other agricultural inputs, dealers need to expand their operations into other areas of the agricultural economy. Dealers often buy their farmer's product for resale at a profit and are thus involved in output marketing. The fertilizer dealer network presently in place can mature into a crop produce and inputs marketing system and the project should facilitate this transition.

7. **Lobby on Behalf of Dealers with Government**
In the transitional phase from a command economy to a free economy, many of the policies of government are likely to be new in concept either to those who draft them for parliamentary approval or those who interpret them subsequently. The Project must intervene on the behalf of dealers with government to persuade them to develop

a policy that is appropriate to the development of the private sector in this market. Problems that may be expected in this area are unrealistic tax regimes, discriminatory sales from the government-owned fertilizer plants, and unnecessary bureaucratic procedures such as the present system of business registrations.

Entrepreneurs do not ask for preferential treatment. Rather, they ask to be given the same opportunities that businessmen are generally given in a market economy.

8. **Develop Alternative Sourcing for Fertilizer**

Once the expected liberalization of prices is enacted and the currency has stabilized somewhat, the project should seek to facilitate direct importation of fertilizer by dealers. Fertilizer marketing in individual countries is difficult in the long run to isolate from the world fertilizer market. The Project will need to integrate, at some point in time, the nascent dealer network with the world fertilizer market. This will require that the Project work directly with dealers to organize jointly purchased fertilizer shipments and with banks to syndicate importation loans.