



**Final Report for Enhancing Capacity Across Sectors Project in Albania
(March 13 – September 30, 2012)**

NAME OF PROJECT: Enhancing Capacity Across Sectors in Albania

PROCESSING SERVICES

	UST	ICT	TCT
# of contractors provided services for	2	0	0
# of trainees processed for other contractors	6	0	0

PROJECT-FUNDED TRAINING & TECHNICAL ASSISTANCE

	US Training	In-Country Training	Third Country Training	Technical Assistance
# of Participants	0	57	1	74
Male	0	22	0	41
Female	0	35	1	33
# of Interventions	0	2	1	5
Major Sectors		Econ Growth,	Governing Justly & Democratically	Econ Growth, Governing Justly & Dem.

Program Description

The program was designed to provide USAID/Albania with access to expert training and technical assistance providers, participant training services and J-1 visa processing services in order to enhance the capacity of Mission-identified groups or individuals to achieve development objectives of interest to the Mission. Small grants were not part of this project.

The project was implemented by World Learning with the Albanian non-profit NGO, Assist Impact, providing all field services in Albania.

Results

The project lasted six and a half months from March 12 – September 30, 2012. A total of eight programs were implemented, one more than originally planned. Of these eight programs, one was third country training, two were in-country trainings involving US trainers and the remaining five were technical assistance programs. Five programs were of short duration, one to seven days, and three involved technical assistance of about six weeks each. J-1 Visas were processed for two groups, one consisting of two participants and another of four participants for a total of six participants. Regarding gender balance, 52% of the participants/beneficiaries were women and 48% men.



In-Country Training

Two in-country training programs were organized, both for the banking sector requested by the Albanian Association of Banks. One two-day training focused on credit portfolio risk management for 24 mid- and high-level risk managers from 12 second-tier banks. The other was a three-day training dealing with bank fraud auditing, detection and prevention, which 33 participants from 15 different banks attended. Trainers were competitively selected from among US and European candidates with highly qualified US trainers being selected for both trainings. The Albanian Association of Banks identified the participants and organized the logistics. Most of the participants gave both trainings high marks.

Third-Country Training

A short training in State Inspection took place in Croatia during which the participant, Head of State Inspection in Albania, saw in practical terms the benefits of this reform, the obstacles encountered during the reform, the implementation of the e-inspection system, including its expansion throughout the Republic of Croatia, the options given by the system to monitor each inspection from the beginning to the end of the final documentation, and the planning and implementation of short- and long-term inspections. The e-inspection system, which enables the planning and monitoring of inspections, seemed especially useful.

Technical Assistance

A well-received five-minute video, together with three 30-second TV spots and one 30-second radio spot, were produced as part of a technical assistance program. The video and spots were designed to complement the US Embassy's larger effort to increase citizen participation and political responsiveness. The video, and spots taken from it, showed Albanians of all walks of life, young and old, speaking up and making their voices heard. It captured unscripted responses of Albanians expressing what they want their country to look like, what changes they'd like to see, especially in the field of health-care, education, the environment, and governance.

Two programs involved support for conferences, one to publish the proceedings for a Symposium on Agricultural Enterprises organized by the Agricultural University of Tirana together with USAID's AHEED project; the other to offer logistical support for a seminar on Human Rights and Local Governance organized by the Deputy Minister of Interior in the framework of Albania's six-month presidency of the Council of Europe.

Two other technical assistance programs involved a study of the impact of the Greek financial crisis and technical expertise to ensure the quick start up of a new Development Credit Authority agricultural loan program. See below under highlights for more information.

Highlights

One of the highlights of this six-month project was the technical assistance offered to ensure the successful and rapid launch of a new Development Credit Authority **agricultural loan program**. The assistance was provided by an extremely competent Albanian consultant who had worked in the banking system in Albania, then in the US, and finally for a USAID-funded project in Afghanistan providing similar support for agricultural loans. He found that collateral and lack of flexibility in loan repayment were more important than the cost of the loan to clients. ProCredit Bank had considerable experience with successful agricultural lending. With the help of the consultant, the bank designed a



Enhancing Capacity Across Sectors

new agricultural loan product which lowers collateral by 50%, accepts moveable collateral for loans under €15,000 and extends the grace period to 12 months. The other bank, BKT, has a broad reach and strong lending experience, but not in agriculture. With the help of the consultant, BKT agreed to launch a new agro-loan product that removes all collateral requirements for loans up to one million leke (nearly \$10,000) and allows irregular payments with a grace period. BKT will also make agricultural loans of up to nearly \$250,000, allowing larger processors or traders to access the significant amounts of credit they need to expand to the next level. Both banks plan to market their new products aggressively and expect to maximize their lending within the first two years, giving a big boost to agriculture in the country. Finally, the consultant worked with another USAID-funded project, Albanian Agriculture Competitiveness, to effectively assist hundreds of potential clients to meet representatives from the two banks.

A second highlight of this six-month project was the study of the impact of the Greek crisis on Albania. After a competitive procurement, the study was awarded to the Albanian Center for International Trade and Competitiveness. The study found that in the last five years, approximately 20% of Albanian migrants in Greece have returned to Albania (around 180,000 persons). Returnees are mostly concentrated in southern Albania, 60% of those are in rural areas. However, many are seeking accommodation and job opportunities in bigger cities, mainly Tirana and Durrës. Around 30% of returnees have worked in the construction sector. They have a low level of skills or vocational training, but only 22% seek training and only 5% social assistance. Almost 70% of returnees are male, with most of them between the ages of 25 and 45. Although total remittances have decreased in recent years, remittances from Greece have increased since 2009 due to Albanians withdrawing their savings from Greek banks. Greek foreign direct investment to Albania has decreased significantly as have both import and exports. The study is proving useful to development professionals as they identify gaps in efforts to reach inclusive and sustainable economic growth.

Implementation Issues

During the set-up phase, branding issues were clarified, and the Mission decided that Assist Impact should use its own Assist Impact logo along with the USAID logo and no mention of Enhancing Capacity Across Sectors should be made.

On May 18, 2012, the Mission provided Assist Impact with the Training Plan. Several programs had been previously requested by the Mission before the training plan and one was subsequently added. Of the eight programs requested, two were in support of the local organization, the Association of Banks, which was assisted by a USAID-funded project. The others were in direct support of Mission development objectives, with no larger project available to provide technical expertise.

For both bank trainings, Assist Impact tried to involve the Albanian Association of Banks (AAB) to make the training as practical and targeted to the needs of the participants as possible. AAB provided lunches, the training venue and recruited the participants for whom the participating banks paid a modest fee. While AAB's training logistics were generally very professional, they declined to be truly involved in focusing the content of the training. Nevertheless, they were helpful in putting us in touch with





Enhancing Capacity Across Sectors

specialists at the banks who could provide needed information. The practice of engaging a local consultant to assist the foreign trainer to ensure that examples are relevant proved very positive.

From the capacity-building needs requested by the Mission, it became clear that this Enhancing Capacity project needed to be extended to September 30, 2012. A revised ADS 303 allowing Missions to directly fund local organizations under certain conditions also required that World Learning work closely with Assist Impact in order to assist in and attest to Assist Impact's readiness to receive an award directly from USAID. A pre-award survey was conducted by the USAID Contracting Office in Budapest the third week of June, with results reported the first week of September. The report was generally very positive and contained one requirement (for a financial audit), eight recommendations and two observations. Assist Impact has established a plan to address each of the recommendations and had already set up a separate, interest-bearing account with joint approval signatures, different from the preparer of payments, for any new USAID-funded activities, identified the board member who will conduct a monthly reconciliation, segregated the cashier duty from the accounting duty and ensured that the administrative officer approves the Executive Director's timesheet. The main recommendations yet to be done involve numbering/labeling the office inventory and making some changes to the statutes to ensure the independence of the Board of Directors. USAID's Financial Management Center will conduct a follow-up survey after the first fiscal year audit is completed.

Suggestions for Improved Implementation or USAID Assistance

The extension to September 30 was important because it allowed certain programs including the agricultural loan support technical assistance to be implemented after the summer holiday season.

The timing of the project, March – September, made it difficult to make full use of all program funds, given the time required by the Mission to decide how best to use the limited resources and the fact that during the summer holidays it is difficult to organize training or technical assistance. By the time it was clear that significant savings in requested program activities had been achieved, there was not enough time to re-program the savings. Nevertheless, a final, last-minute request from the Ministry of Interior was able to be honored through this project.

As a final suggestion, this project would have benefited from the inclusion of small grants in order to meet the needs of returned participants to accomplish projects of limited scope, such as the publication of symposium proceedings. Assist Impact could have provided necessary oversight both to ensure accountability and to enable returned participants to take charge of their own development or follow up on action plans.





Study on the Economic Impact of the Greek Crisis in Albania

Conducted by:

The Albanian Centre for Competitiveness and International Trade (ACIT)

Tirana, August 2012

This study is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents are the sole responsibility of the Albanian Centre for Competitiveness and International Trade (ACIT) and do not necessarily reflect the views of USAID or the United States Government.

Executive Summary

This report provides an analysis and evaluation of the impact of the Greek crisis on Albania. It is focused mainly on the issue of returning Albanian migrants and the economic effects in terms of remittances, Foreign Direct Investment (FDI) and trade balance. It includes an overview of the literature and statistics on the consequences of the crisis and analysis of data gathered during fieldwork and interviews in local institutions of four different Albanian districts, those with the highest number of returnees. The main findings of the study are as follow:

- In the last 5 years, between 18 to 22% of Albanian migrants in Greece have returned to Albania (around 180,000 persons).
- Returnees are mostly concentrated in south Albania, almost 50% in the districts of Korca, Gjirokastra, Saranda and Fier (60% of those are in rural areas). However, many are seeking accommodation and job opportunities in bigger cities, mainly Tirana and Durres. Around 30% of returnees have worked in the construction sector. They have low level of skills or vocational training. Almost 70% of returnees are male with most of them between the ages of 25 and 45.
- In terms of reintegration challenges, despite considerable efforts from Albanian institutions, there is a lack of information on institutional practices and procedures. Only a small part requires training (22%) or assistance (5%) and there are few advisory and information services for investment and job opportunities.
- Although total remittances have decreased in the last years, remittances from Greece have increased since 2009 due to Albanians withdrawing their savings from Greek banks. Greek FDI to Albania has decreased significantly in the last 5 years, dropping from 53% of total FDI in 2006 to 27% in 2011. As for trade, Albanian imports from Greece have decreased from 15% in 2007 to 11% in 2011. Albanian exports to Greece went from 8.2% of total exports in 2007 to 4.9% in 2011, falling to fourth trading-partner from second.

After analyzing all the data on the crisis impact and evaluating the current situation, we conclude that there are three main risks for Albania in the short and medium term:

- The pace of return of Albanian migrants is one of the most serious risk factors, since they will put public services under pressure, especially the already fragile health and education system. Albania in the short term cannot increase its social security net or invest in its health system as it is significantly lowering public spending in order to maintain its public debt at less than 60% of GDP.
- If Greece abandons the Euro and reintroduces a depreciated drachma, Albanian exports to Greece would become more expensive and thus a significant drop in

exports could be expected, deteriorating even further the trade balance. Secondly, Albania would receive lower remittances, by at least half the value.

- If Greece exits the Eurozone the Albanian public might react by withdrawing their deposits, almost triggering a banking panic. This might disrupt the banking system and therefore have immediate repercussion on the economy.

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Contents

Executive Summary.....	ii
Contents	iv
Table of Figures.....	v
Background.....	1
Objective of the Study	2
Methodology.....	3
Albanian emigration and the crisis.....	5
a) Albanian migration in Greece.....	6
b) The crisis and the return of migrants	9
c) Analysis of predominant trends and distribution of returns.....	9
d) Challenges of reintegration	11
Economic impact of the crisis in Albania.....	12
a) Remittances.....	13
b) Capital inflows and direct investments.....	17
c) Bilateral trade and trade balance.....	20
Conclusions: main risk factors from the Greek crisis.....	23
References.....	24
Interviews with officers in the following institutions:.....	26

Table of Figures

Figure 1. Number of legal Albanian migrants in the last 20 years	5
Figure 2. Albanian Out-Migration 1991-2010	6
Figure 3. Distribution of Albanian labour force in Greece, 2006.....	8
Figure 4. Educational background of Albanian migrants in Greece, 2006 (%)	8
Figure 5. Flows of remittances to Albania in the last years.....	14
Figure 6. Remittances from Greece	15
Figure 7. Remittance flows by quarters of years	16
Figure 8. Albania: FDI inflows and outflows, 2004-1011 (Millions of euro).....	17
Figure 9. FDI inflows by sector, 2011	18
Figure 10. FDI by main countries.....	19
Figure 11. Share of FDI in Albania by country	20
Figure 12. Trade flows between Albania and Greece.....	21
Figure 13. Albanian exports to Greece 2011, by sector	22
Figure 14. Albanian imports from Greece, by sector	22

Background

Starting as a financial sector crisis and soon extending to a global scale, the world financial crisis has assumed the features of a deep, all-encompassing economic crisis. The theoretical analysis of the causes and factors of the crisis has also undergone a parallel evolution. In a short period of time, it has become clear that the cause could not be only the vacuum in the regulation of domestic and international financial markets, but a combination of factors which eventually resulted in a lack of liquidity, debt crisis, a drop in the global demand for goods and services and declining investments. The world economy appeared to be 'overheated' and the responsibility for this lies with a series of actors, including the institutions of the world financial system. Due to a complexity of causes, the crisis easily spread from the financial system to the real economy, affecting the sectors of production, construction and services; hence influencing both business and household economies. The same process also took place in terms of geography. The crisis crossed the borders of its country of origin and spread first to developed countries and then started to increasingly and significantly affect the economies of the developing or transition countries in all five continents.

It is also quite obvious that the Albanian economy could not escape the influence of the crisis. Initially, the Albanian economy demonstrated a 'commendable immunity' against negative signals and pressures deriving from the world economy (Bank of Albania, 2009). On the other hand, the Albanian government, instead of undertaking a serious attempt to understand the real threats and suggested measures (necessary to handle the crisis situation in order to alleviate the social shock it implied), appeared more interested in "defending" the position. "Albania does not have an economic crisis!" (Ministry of Finance, 2009). The Albanian economists and politicians spent a long time debating whether or not the economic crisis was affecting Albania.

When it first appeared in Albania (May-June 2008), the concentration of the world financial and economic crisis was still in the financial sector. At this stage, until the fall of 2008, there was no major influence on the Albanian economy. The main explanation for this is the still underdeveloped stage of Albania's financial system, its low level of sophistication and integration into international financial markets, lack of exposure to foreign assets and a general reliance on safe (non-toxic) private deposits and relatively safe loans which resulted in considerable earnings for the banks themselves. Afterwards however, the shock was quite evident, mainly seen in increasing nervousness and worried public reactions (fourth trimester of 2008) whereby the public started withdrawing deposits (mainly as a psychological effect). This was also strongly related to what was happening in Greece, leading to a drop then estimated at 9% in deposits within the final trimester of 2008, a figure that today is estimated at -15%.

Since 2008, many developments have taken place and the Greek crisis has directly affected the Albanian economy. As expected, the economic situation in Greece would become the main issue and would provide mechanisms of the transmission of effects of

the crisis to the Albanian economy. The influence would appear first in the drop of the flow of the exchange of goods and services, in the flux of investments, in remittances and in the possible return of Albanian migrants. The first wave of deposit withdrawals was accompanied by instability and difficulties in managing the liquidity of the banking system, a significant drop in loans for the economy and a significant augmentation of liquidity costs. These are clear signs of the affected economy. The drop of commercial exchange that aggravated the balance of payments (imports dropped by 1.8% during these six months) and the diminishing of transfers in foreign currency (the entries for this year's tourism season also seem to be far below the expected level) brought a significant destabilization to the exchange rate, considerably affecting the national currency.

While it is widely accepted that under the influence of the Greek economic crisis, the Albanian economy has entered a cycle of slower economic growth, the confusion and debate have focused on details, the examination of which is indispensable for obtaining the real picture of the structural features of the crisis and the correct response to it. Hence, it is not clear whether this slow-down of economic growth will be short-term or long-term; the degree of importance that different mechanisms of transmission have had in introducing the Albanian economy in this negative cycle is unclear. This low level of knowledge makes it difficult to prevent and resolve the different factors and problems, so that the recessive cycle of economy can be slowed or overcome. Apart from the occasional perceptions of the business community, as expressed sometimes in the daily press or in the sporadic research initiatives, there is not yet a genuine analysis on the structural features of the impact of the Greek economic crisis and its consequences.

Objective of the Study

The Eurozone crisis has affected Albania, with thousands of Albanians returning to their homeland primarily from Greece where the economy is in deep and widespread recession. The objective of this study is to analyze the effects of the Greek crisis on Albania, with particular focus on returning migrants, remittances, trade and investments. Some "symptomatic" indicators on the influence of the Greek crisis in Albania were already obvious in 2008. However, while macro-economic and micro-economic symptoms were clear, very little is known about the more specific economic impact of this crisis and especially about its extent. Despite general indications of the increase in Albanians returning from Greece and the decrease in remittances, hard data (and even good estimates) have been difficult to access. Reports and interviews with local government officials and businesses have seemed to indicate that the majority of Albanians returning from Greece are settling in primarily rural environments where agriculture is the main means of employment and income generation. Albania is faced with both decreased remittances from abroad as well as an increased strain on poorer, rural communities. Many former guest workers are returning with enhanced skills; some may have a number of business skills and modest savings to invest, while others may have good technical skills that would be very useful to current enterprises. There has been a marked lack of

research showing good estimates of the general geographic distribution, urban/rural breakdown and other demographics, challenges faced and reasons for successful reintegration. In addition, solid information has been in short supply on the levels and trends of remittances, net capital inflows/outflows, trade balances and bilateral trade with Greece dimensions as well as consequences for certain vulnerable groups such as returning migrants.

The main focus of this project is therefore the analysis of the economic effects of the Greek crisis in Albania and the exploration in some detail of its impact. This task has been realized through a combination of research work which involved integrating the existing materials, research and statistics on the issue and complementing the findings with primary data and expert debates. The objective is to understand and evaluate the impact of the crisis in Albania and to try to identify three main risk factors deriving from the situation in Greece in the short and medium terms.

Methodology

As explained above, the aim of the study is to give a comprehensive overview of the impact of the Greek crisis in Albania considering different inter-related elements. The methodology used for measuring the impact was based on macroeconomic indicators and all the available official data and statistics were sourced from central and local institutions in Albania and Greece. Reports and statistics from institutions such as the Bank of Albania, INSTAT, EBRD, the Ministry of Economy, Trade and Energy of Albania, the Ministry of Interior of Albania, the Ministry of Interior of Greece, the Ministry of Labour and Social Issues of Albania, IOM, Custom border offices, municipalities, local employment offices, and organizations dealing with migrants.

In terms of migration, the study is based on different sources. First, the study uses official data, reports and statistics from Albanian and Greek institutions covering this field. Different ministries, border institutions, migration desks, etc. were the primary source. The Greek population census of 2001 and its various reviews and updates in terms of estimates and later projections proved a very useful source for mapping and quantifying Albanian migrants (and their distribution) in Greece. This aspect of the study also involved carefully double checking the data from different sources and explaining the meaning and background of some of the data. Since there have been diverse debates and disputes over the real figures of migrants returning and those still in Greece, we believe that the cross check operation conducted of the different sources in this report has provided reliable estimations and data. For these macro figures, apart from institutional data from the Ministry of Internal Affairs, the Ministry of Foreign Affairs, INSTAT, the Ministry of Social Issues, etc. in both countries, we have also used research data and statistics provided from the Mediterranean Migration Observatory. The studies from the Mediterranean Migration Observatory were extremely useful in developing our report and providing some qualitative and quantitative analysis based on reliable data.

The task of identifying the notable trends of Albanian citizens returning from Greece required much more research and cooperation with local authorities in the four different districts that were chosen as samples. The districts of Korca, Saranda, Gjirokastra and Fier are some of the most affected areas in terms of the number of returning Albanians. The distribution of migrants in urban and rural areas was identified through data and estimates of local authorities and civil offices in the respective municipalities. A set of interviews for local offices was carried out by ACIT researchers during the fieldwork stage. Examination of other general trends, such as their background, work experience and training and the identification and analysis of the predominant demographic trends among returnees (i.e., male, female, age groupings, returning as individuals or as families, etc.) was also conducted based on figures from both local authorities and the Mediterranean Migration Observatory.

Through a representative sample of interviews with local authorities at lower levels we attempted to explore as much as possible the predominant challenges faced by returnees during reintegration. This part of the study was also based on various academic and research studies already carried out on Albania during the last 4 years (King, 2009; Vathi, 2011; Vullnetari, 2010). These studies provide qualitative and in depth information on a returnee's problems, especially in terms of reintegration.

Tracking down the development and changes in remittances flows was based on official data provided by the Bank of Albania, the World Bank and other international institutions. This type of data is easily accessible and we have been analysing it for the last five years in order to reach some helpful conclusions and recommendations for policy makers. The same applies for the trend analysis in net capital inflows/outflows over the past five years. These indicators were the main source for the final analysis of the report and for assessing the main risk factors.

With regard to trade balances, ACIT has monitored and analyzed trade developments over the last 10 years as part of its activities. In this study, Greece has been examined more in depth, not only because it is one of the main partners, but also because of its specific situation and the expected impact on the Albanian economy. Based on the Albanian Custom Office and Eurostat Data, we have analyzed trade data from different perspectives with particular focus on trade balances with Greece over the last five years. Trade balance is a crucial macro indicator that provides interesting signs for further analysis, especially in times of crisis. We attempted to analyze and explore the impact of the crisis on the trade between the two countries. This included a trend analysis of bilateral trade with Greece over the past five years. We have provided a clear explanation of Albanian and Greek trade relations, the signed agreements and the trade regime between the countries. We analyzed trade in the specific sectors, attempting to reach conclusions on the impact of the crisis so far on most of these sectors and to propose some expectations for the short and medium terms.

Lastly, for the final part of the study that focuses on the main risk factors, in addition to using all the findings from the collected and analyzed data, we also tried to

examine the ‘bigger picture’ in consultation with senior economists and associated experts at ACIT. We organized a focus group with the most prominent economists and experts in the field and attempted to gather their opinions on the main risk factors that will be faced by Albania in the short and medium terms. We reached some common conclusions based mainly on our analysis and findings.

Albanian emigration and the crisis

After the fall of communism, Albania was highly affected by massive migration. Together with Romania, it is considered to be one of the countries with the largest migration in the continent for the last two decades. There were many reasons for the large exodus of Albanians: experiencing freedom after 50 years of a brutal regime, poverty, unemployment, political instability, etc. The graph in figure 1 shows the number of Albanians that have left Albania legally, under the refugee status, over the last twenty years. In the 2000s, emigration has become much easier in terms of legal emigration, due to the slow consolidation of the Albanian situation and the credibility achieved during the last twenty years.

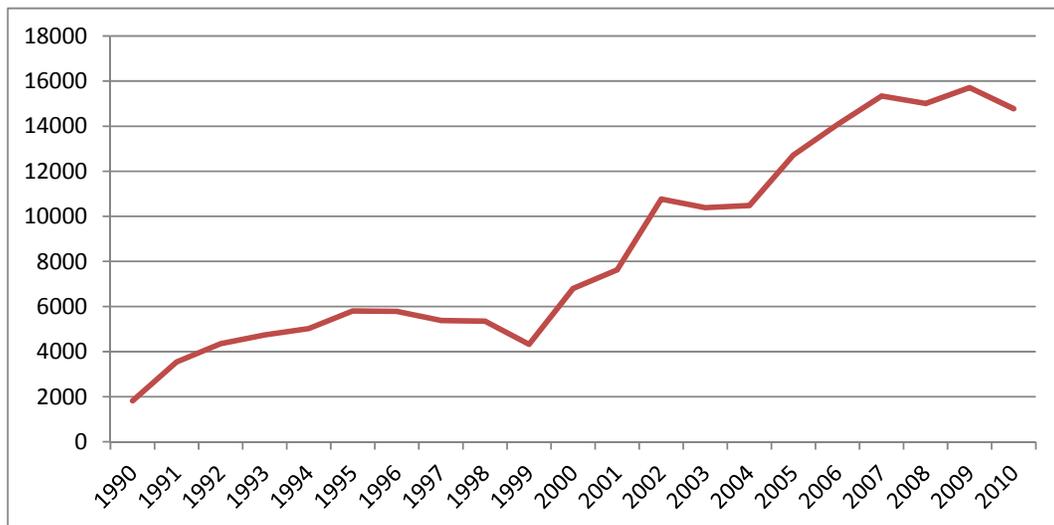


Figure 1. Number of legal Albanian migrants in the last 20 years

However, this graph does not depict the real picture of the process of Albanian migration. Legal migrants or refugees were only a small part of Albanians who left the country. Figure 2 reveals some interesting data, where it can be seen that the largest wave of migrants occurred in the 1990s.

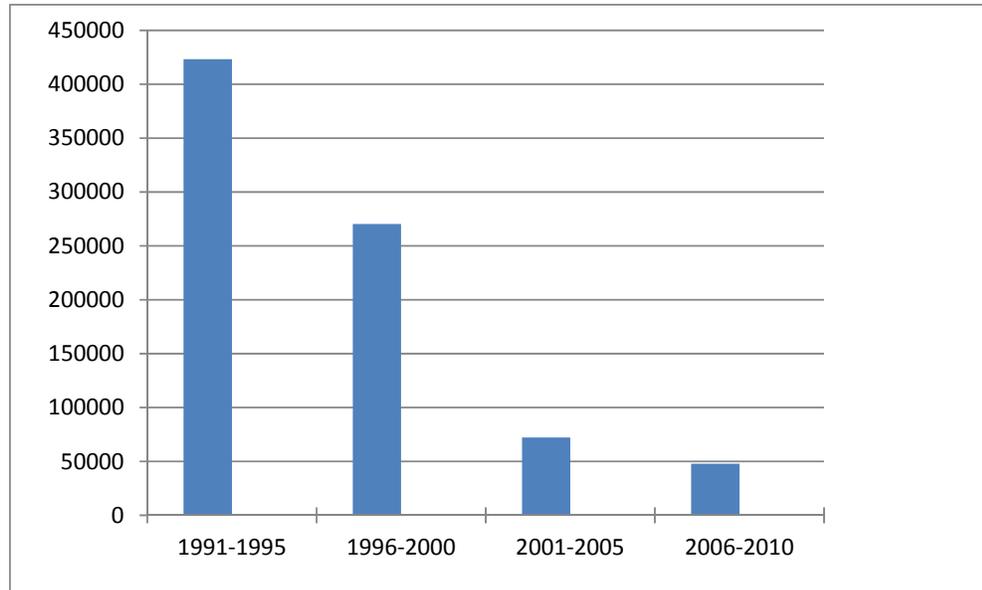


Figure 2. Albanian Out-Migration 1991-2010

(World Bank, 2011)

Due to Albania's dire economic conditions and unemployment, almost 800,000 Albanians have left the country and most of them have migrated to neighboring countries such as Greece and Italy. One third of the population left the country, causing diverse effects which have often been neglected by researchers and policy makers. Fortunately, in the last few years many studies have been conducted on Albanian migrants, especially in Greece, in an attempt to understand their integration, characteristics and role in Greek society. Especially in terms of the first waves of migrants who have been living in Greece for almost 15-20 years, it is important to understand the migrants' attitudes towards the crisis, their connections to Albania and their willingness to return to their homeland. The following subsection provides an analysis of the characteristics of migrants living in Greece.

a) Albanian migration in Greece

There are relatively few datasets and statistics available on immigrants in Greece. Not only is there a gap in the institutional data in the countries of origin, but Greek institutions have also experienced many difficulties in quantifying immigrants in their country, either undocumented or semi-documented. However, some datasets are available and these have been used for the purpose of this research. Datasets that have proved to be the most important include the 2001 Census, the residence permits database of the Ministry of Interior, and the Labour Force Survey. The Mediterranean Migration Observatory has elaborated on some very interesting working papers, not only by collecting data from the different institutions but also by analyzing and providing estimates and projections after the 2001 Census (the most recent census in Greece). Mapping the data about Albanian

immigrants in Greece and providing a clear overview of their distribution in terms of numbers, age, gender, professional profile and education is a very important instrument for the analysis of the returning migrants and for Albanian policy makers' expectations.

The 2001 Census found that there were 762,161 immigrants residing legally in Greece, of which 438,036 were Albanian (almost 58%). In 2006, the number of Albanian migrants with permits had reached 73% of total immigrants in Greece. However, this difference is also explained by the large number of Albanians that applied for permits in 1998 (250,000) and 2003, but also by the high number of 'homogeneis'¹ practices. According to different sources, the most reliable figure of the number of Albanian migrants with legal residence in Greece in 2007 was around 600,000. This figure includes only legally residing Albanians and excludes illegal immigrants. Although no reliable data is available on the latter, a few reports and projections claim that that figure might have been between 150,000 and 200,000 in 2007.

In terms of age distribution, it appears that Albanian migrants are composed mainly of young people. The 2006 data shows that 15% of Albanian immigrants in Greece were between the ages of 25 and 29. Almost 57% of them were between 20 and 50 years old. Therefore, there is a clear pattern of a young Albanian population in Greece. Almost 25% of Albanians in Greece are under the age of 16. Albanian children in Greece constitute 84% of all child immigrants. It is also revealing that the Mediterranean Migration Observatory showed that between 1991 and 2007, almost 110,000 Albanian children were born in Greece. This data is very important, especially when analyzing returning migrants and their reintegration problems in Albania. Concerning the family status of immigrants, almost 70% of Albanians are members of nuclear families with children (approximately 244,000 families from the census).

It seems that Albanians have not invested extensively in real estate in Greece, where less than 15% have acquired property in Greece (MMO, 2007). This makes the returning process less problematic. In terms of employment, in 2006, 88% of Albanian males of working age were employed, while the figure was 47% for females (MMO, 2007). The male employment rate was much higher for Albanians than for Greeks, but it was lower when compared to other immigrants. In terms of sector distribution, the picture had changed significantly in 2006 compared to 2001. In 2001, almost 25% of Albanian migrants worked in the agriculture sector, but 5 years later this figure was only 11%. Construction holds the greatest portion and has increased over time, reaching almost 40% in 2006. This distribution is important when evaluating the professional background, training and skills acquired by Albanian migrants. As will be explained later, according to Albanian migration offices, most of the returning migrants seek employment in the sector where they have most experience.

¹ Albanian citizens who claim to have Greek origin and have obtained their permit of residence in Greece.

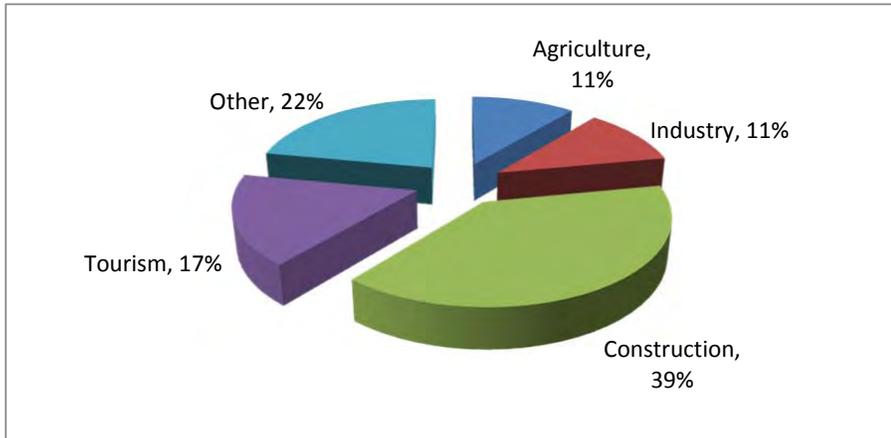


Figure 3. Distribution of Albanian labour force in Greece, 2006
(Mediterranean Migration Observatory, 2008).

For this purpose, a migrant's education background is also an important factor. The graph in figure 3 shows the distribution of Albanian migrants in Greece in terms of the level of their education. As can be seen, most migrants are concentrated in the primary and secondary school level (almost 70%). Most of them come from Albanian rural areas and live mainly in Greek cities (large and medium size).

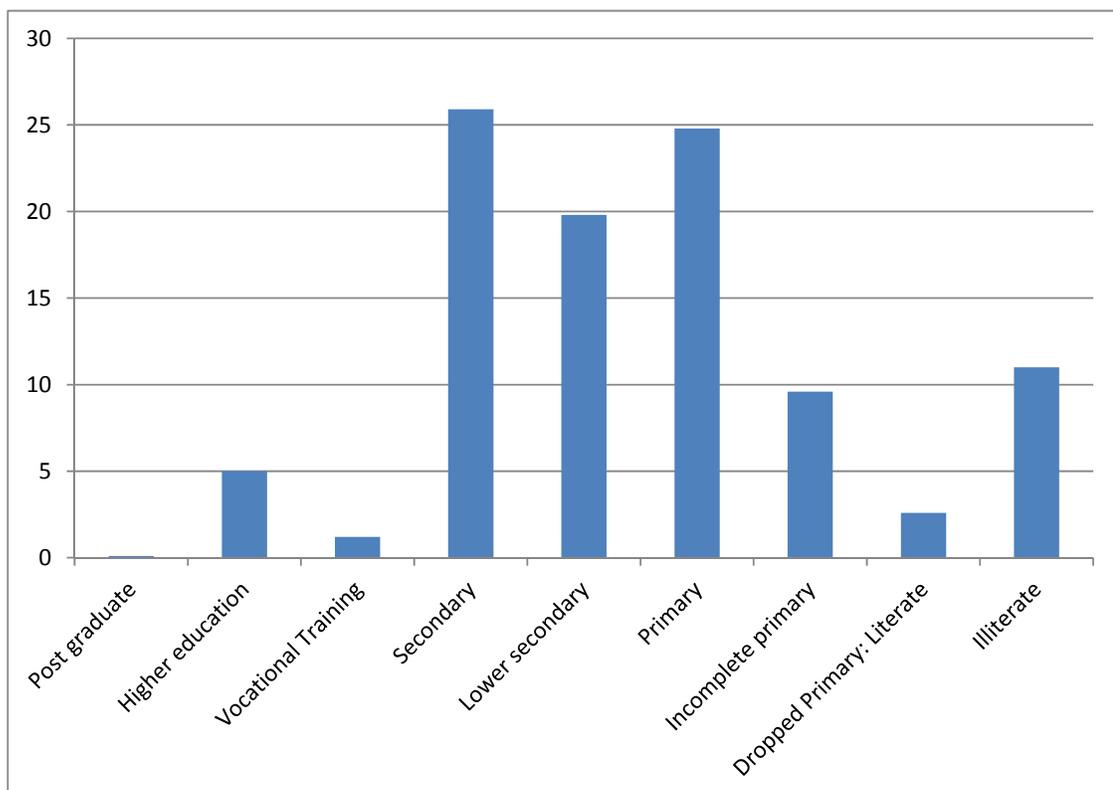


Figure 4. Educational background of Albanian migrants in Greece, 2006 (%)

b) The crisis and the return of migrants

In 2008, the Greek crisis was firmly established. This also had immediate psychological effects on Albanian migrants. Some migrants removed their savings from Greek banks and transferred their money to Albania. This trend has continued during the last three years. In 2011 for example, the bank deposits of migrants in Albania were 17% higher when compared to the previous year. Apart from the monetary issue, the increasing rate of unemployment and business failures in Greece, migrants started to consider returning to Albania. Between 2008 and 2009, there was an important wave of returnees, estimated to be around 120,000 by Albanian institutions. However, it is extremely difficult to assess whether all of them remained or some returned again to Greece. According to the border offices, each year there is an increase of migrants entering the border (26% higher last year) and not all of them return to Greece.

There is an ongoing debate about the figures and data on returning migrants. Since there is no formal procedure of declaration or registration (with the exception of border control which applies to everyone including tourists), it becomes more difficult to establish the number of migrants who have returned permanently. The only data available is obtained at the local or central Labour and Migration offices when returning persons register as beneficiaries in order to benefit from the department's services. Related to this, the ministry declared that in 2011 almost 30,000 persons were registered as returning migrants at the Labour and Migration offices and have become beneficiaries of foreseen services. For 2012, with reference to the trend for the first semester, the ministry's projection is 60,000 returning persons.

Considering all sources available and combining the different partial statistics, it is estimated that in the last 5 years, between 18 to 22% of Albanian migrants in Greece have returned to Albania. Although it is impossible to determine whether they will stay or return to Greece, it still means that around 180,000 persons have decided to leave Greece and try to reintegrate into their homeland. According to local institutions, more people are expected to return with the termination of the school year in June/July of 2012. While there is an increasing trend of people returning, a vast number maintain contact and relations with Greece. It seems that some still move back and forth during this transition period until they are able to acquire employment or start a business in Albania. Others have remained in Albania for 6-12 months before returning to Greece. However, the general trend describes a situation of massive returning, especially in 2012.

c) Analysis of predominant trends and distribution of returns

While it is relatively easy to extract data and provide figures for the total number of migrants in Greece and figures for returning persons, the task of quantifying the distribution within the Albanian territory is more difficult. This requires the meticulous work of gathering partial data and information from each employment office, all emigration desks, municipalities and other local institutions. In some cases we calculated estimates and projections since records for each year are not always retained. However,

the following provides a detailed description of the main characteristics of returning migrants to the Albanian territory.

- First, we attempted to estimate and quantify the concentration of returning people by region. From our fieldwork, it emerged that, as expected, most of the returning migrants are originally from south Albanian districts. According to estimates from local institutions' offices, almost 50% of returning migrants are originally from four important districts: Korca, Gjirokastra, Saranda and Fier (interviews in Migration Offices). This is an important feature since, although initially they returned to their towns or villages, most of these migrants have attempted to move to larger cities that have more opportunities (mainly Tirana and Durres). Therefore, despite the fact that rural areas are mostly affected since the largest proportion of returning migrants move to these areas (more than 60% in the selected districts), it is difficult to quantify how many of these people will actually remain there since there is evidence suggesting their intention of moving to the larger cities.
- In terms of the returning migrants' vocational/work patterns, not surprisingly the construction sector occupies the greatest share. According to the data we collected in the four districts, almost 30% of returnees worked in the construction sector in Greece (interviews in local Employment Offices). We calculated an average percentage, since the distribution is not the same among districts. Most returnees are not considered as part of the qualified labour force and are rather low skilled construction workers. This figure gives us some food for thought in terms of reintegration possibilities, because, as is well known, the construction sector in Albania has experienced a major slowdown in the last two years. Agriculture and service sectors follow with a lower incidence. It is interesting to note that despite the fact that a large number of Albanians in Greece work in the tourism sector, there are few returnees. This suggests that although there has been an impact of tourism, it is still a robust sector for Greece and there have not been a significant number of staff reductions among Albanians.
- More than 70% of returnees are males. From the interviews we related this to the fact that many families have preferred to return gradually and the men have returned first in order to check the situation for opportunities and prepare the conditions for his family. This is particularly valid for the urban returnees and for the lower percentage of returnees to rural areas (who usually return as entire families). However, another explanation is related to the fact that more than 57% of Albanian migrants in Greece are male. They are more mobile and a number of them are single; it is therefore expected that among returnees, males would prevail.

Age grouping reflects the general age grouping of migrants that are resident in Greece, although there are slight differences. The age between 25 and 45 is dominant, especially in the rural areas, while older and younger age groups are more concentrated in the cities. The age grouping indicator varies among the districts, but the above mentioned indicates the general and average trend.

d) Challenges of reintegration

The reintegration process and its problems, in theory and in practice, are well documented in the literature. In the case of Albanian migrants, there are several considerations to be made in terms of challenges they face. Firstly, the poor economic situation in Albania, as explained in the following section, does not offer the required opportunities. Unemployment and stagnation that have been transmitted from the global and Eurozone crisis are major obstacles for returnees. Differences in practices, institutional procedures, access to public services, official behaviours, lack of information, etc. are some of the many issues faced by returning migrants. The large number of Albanian children born in Greece is also a considerable and sensitive problem. Most of them do not speak Albanian and they find themselves isolated when they return to Albania. Only a few schools offer courses in Greek language, while higher education institutions do not offer any courses. Some migrants manage through international schools if they are fluent in English, while others are forced to learn Albanian and experience a culture shock when they participate in regular classes.

A few years ago, Albanian authorities began attempts at easing the reintegration process. The Strategy and the Action Plan for reintegration for 2010 – 2015 has already been approved and implemented. Migration offices were set up in every district (excluding rural areas) and many central institutions are involved in implementing the strategy. Information points are provided at each border where officials answer questions and distribute information sheets.

Local employment offices have been very actively involved with returning migrants. While they are treated as other job seekers, they can attend free training and professional development programs. According to local Employment Offices in the four selected districts, 22% of returnees require training programs. The programs are perceived as a way of increasing the chances of finding a job. As part of the strategy, it is expected that returning migrants can benefit from an economic assistance which amounts to 8,000 Lekë (ALL) per month, per family. Only 5% of returnees have applied and received the assistance in these districts.

Migrants have a strong interest in investing their money in business projects, especially in the agriculture sector. However, since they are not very familiar with the system and since they are cautious after their experiences of the great loss of savings in 1997, they hesitate to invest and sometimes are left without proper advice. Despite the fact that the Strategy has provided useful information via the contact points and mechanisms for easing their reintegration process, there is still scepticism and a general situation of waiting to see what will happen. There are many who still hope that the situation will improve in Greece so they can return.

However, there are plenty of reintegration success stories, especially with business initiatives. In Saranda and Fier, returning migrants have made many important investments over the last two years that have been successful. Especially in the agriculture sector, migrants have benefited from government financial help in planting

olives and other crops. In the cities, the trend is to initiate small businesses, with the view to bringing their experience home. This positive trend has been seen recently and, if encouraged, it might lead to hopeful models for other returnees.

Economic impact of the crisis in Albania

The sectors of the real economy in Albania have started to reflect the rigidity and further drop in demand, the fluctuation of the exchange rate and the difficulties in financing since 2008. The industrial sector in general and the active processing sector business in particular, commerce and services, mining and refinement of minerals, started to show performance indicators that were dropping and augmented the pressure for protective and supportive measures by the authorities. The year 2009 represented the worst year in terms of economic performance. The difficulties in financing the expenditures and the public investments were caused by public loans with high costs, while the official unemployment rate increased.

However, the Albanian economy continued growing during 2011, despite the pressure developing particularly due to the crisis in the Euro area. The growth rate of GDP in real terms was estimated below 3% (Bank of Albania, 2011), which was lower than the rate of 3.9% in 2010. Growth was supported mainly by “external demand (reflected in the increase of export-related industries and tourism activity-related services) and a slight fiscal stimulus throughout the year” (IMF, 2011). The total expenditure as a percentage of GDP declined from 29.3% in 2010 to 28.6% in 2011, while the total revenue relative to GDP declined from 26.2% in 2010 to 25.1% in 2011, resulting in an increase of the overall fiscal deficit of 3.5% from 3.1% in 2010 (Bank of Albania, 2012). According to the official data, the total public debt as a percentage of GDP was 58.9%, an increase from 57.8% in 2010. Such figures reflect the narrow space for fiscal stimulus and the need for a more prudential fiscal policy.

During 2011, domestic consumption and investments remained weak, reflecting the prudential behaviour of consumers and investors and also the uncertainty caused by international financial market developments. According to the Bank of Albania (BoA), the total deposits increased by 10.4% in 2011, while credit to businesses increased by 17.9%. However, in the first months of 2012, the credit to businesses declined by 0.5%. Household loans declined by 0.4% in 2011 and household loans for business activity declined sharply by 40.6%. The inflation rate averaged 3.5% during 2011, in line with the BoA inflation objectives. Prudential monetary policy continued during the year, particularly in the first half of the year because of high food and commodity prices. The weakening of the inflation pressure in the fourth quarter of 2011 (and in the beginning of 2012) and also the need for a stimulus to growth, forced the BoA to decrease the base (policy) interest rate to the lowest historical level, 4.25% (another decrease occurred recently in July 2012). However, BoA has continued to provide liquidity at an increasing maturity and at an extended range of collateral to the banking system.

The external balance of the economy has become more problematic in the last few years. The current account deficit as a percentage of GDP increased to 12.5% in 2011, from 11.7% in 2010. The remittances continue to show a declining tendency: from 951.7 million Euros in 2007 down to 833.3 million Euros in 2008, 781.3 million Euros in 2009, 696.8 million Euros in 2010 and 692 million Euros in 2011. Such a decline (besides reflecting the natural trend of remittances as predicated in the economic literature), is a direct consequence of the effects of the Euro area crisis in the main host countries of Albanian migrants, particularly Greece. This aspect is explored further in the following section.

Trade balance continues to determine the high level of current account deficit, having increased by 8.6% to 340,545 million Albanian Lekë (ALL) in 2011, as shown in table 3. The trade deficit relative to GDP was 26.4% in 2011 or 0.7 percentage points higher compared with 2010 (ACIT, 2012).

a) Remittances

After the collapse of communism, Albania has shown a high dependency on remittances which help many families alleviate poverty while at the same time financing the significant imbalance between the export of goods and the import of services. Remittances have played an important role in providing relief during difficult economic times, ensuring complimentary social protection and correcting the limited government policy interventions. In this light, the value of remittances in relaxing credit constraints and providing insurance has been widely recognized in a growing body of literature connected with the 'new economics of migration' theory.

Several studies have been carried out in recent years to identify the impact of the economic crisis in Europe on the families receiving remittances. While the banking sector is usually thought of as being immune from the crisis in Albania, it is widely believed that the major channel affected by the crisis in Albania is the decrease in the level of remittances sent to the country. The most recent survey from the Bank of Albania in 2009 suggested that almost 64% of annual remittances are sent to rural areas in Albania to help with daily expenses (World Bank predicts that almost 35% of Albanians would be living in poverty without them).

It is therefore important to evaluate what is happening with the levels of remittances in Albania and whether this might have an impact on the economy and citizens here. Data from the World Bank shows a fall in the absolute value of remittances (WB, 2010). The value of remittances sent to Albania was the highest in 2007 at the wake of the global crisis but it has fallen consistently thereafter.

The data shows that in 2011 the value of remittance² sent to Albania was around 692 million Euros or 27% lower than in 2007, thus indicating that the sustainability of this source of finance is questionable.

According to the data obtained from the World Bank, the importance of remittances as a percentage of GDP has fallen consistently in the past five years. The latest data for 2011 shows that remittances accounted for only 7.3% of GDP or were more than 6% points lower than in 2006 (WB, 2011).

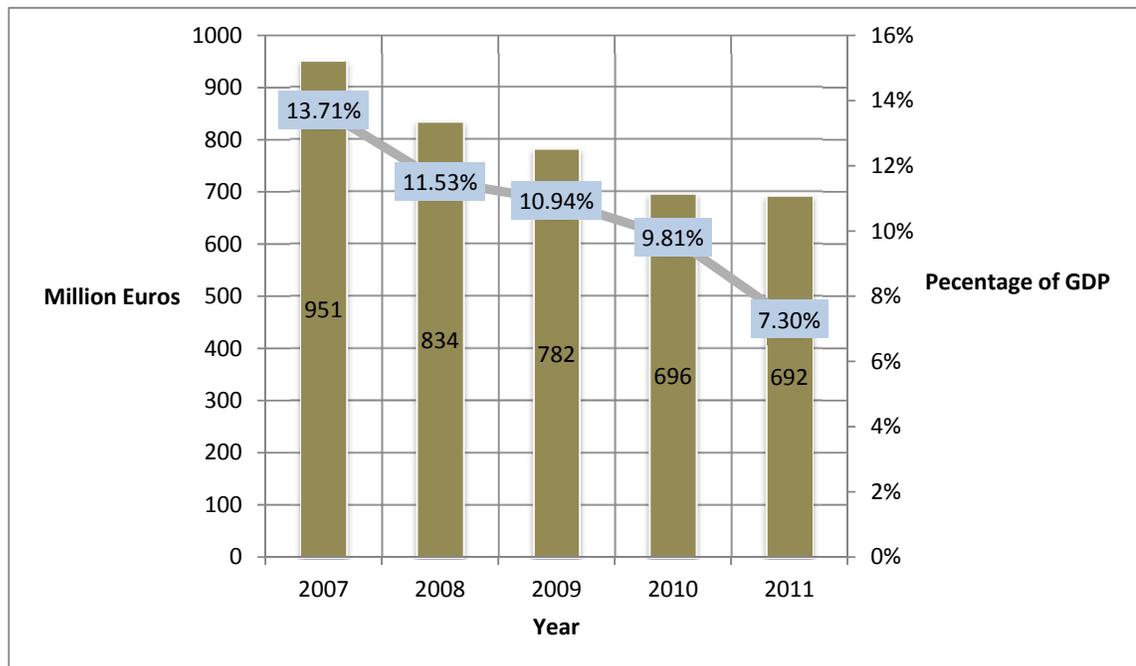


Figure 5. Flows of remittances to Albania in the last years

While the total figures for remittances sent to Albania show a consistent decrease in value, there seems to be a reverse trend concerning remittances received from Greece. According to data obtained from Eurostat in 2010, remittances sent from Albanian workers in Greece to Albania increased to 514 million Euros, a drastic increase compared to 2009. Two main explanations are possible for this increase in the remittances received

² Workers' remittances and compensation of employees comprise current transfers by migrant workers and wages and salaries earned by nonresident workers. Data are the sum of three items defined in the fifth edition of the IMF's Balance of Payments Manual: workers' remittances, compensation of employees and migrants' transfers. Remittances are classified as current private transfers from migrant workers resident in the host country for more than a year, irrespective of their immigration status, to recipients in their country of origin. Migrants' transfers are defined as the net worth of migrants who are expected to remain in the host country for more than one year that is transferred from one country to another at the time of migration. Compensation of employees is the income of migrants who have lived in the host country for less than a year. Data are in current U.S.dollars (WB, 2008).

from Greece. The first explanation is an opinion supported by the government suggesting that Albanian immigrants are returning and investing their money in Albania (Ministry of Finance, 2011).

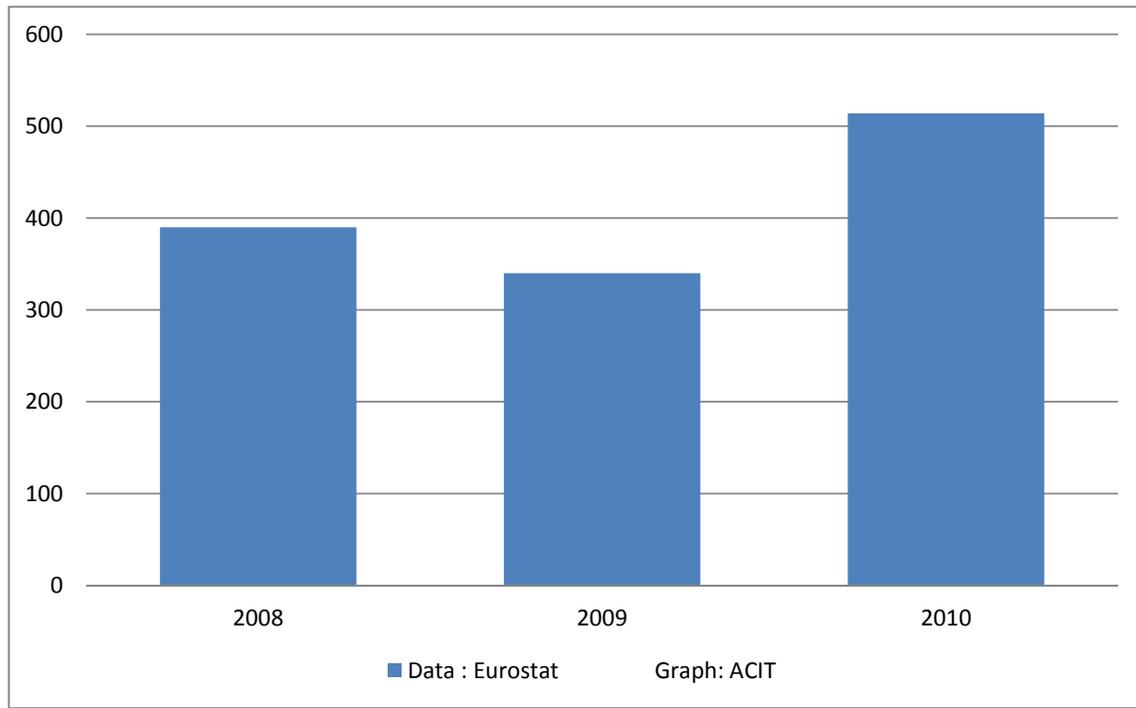


Figure 6. Remittances from Greece (in million Euros)

The other explanation for this increase is the bank crisis in Greece and that the Albanian immigrants are making withdrawals of deposits and sending the money back to Albania, hence the large increase in deposits in Albanian banks during this time. It is likely that this increase is only temporary, given the dire situation in the Greek economy. It is therefore sensible to suggest that in the coming months and years, remittances from Greece will again significantly drop. Albanians working and living in Greece will find it difficult to find work as the fear of *Grexit* (Greece leaving the Eurozone) becomes more probable.

Eurostat figures raise the issue of the accuracy of the data obtained from the official figures from the Central Bank of Albania. According to this institution the remittances to Albania in 2010 were 696 million Euros. This suggests that remittances sent from Greece accounted for more than 73% of the total remittances received in the country during 2010. This contradicts the results from surveys conducted by the Agenda Institute in Albania (Agenda Institute, 2011) with a sample of 1200 families which showed that only 42% of remittances came from Greece. This figure is also higher than the data obtained from a national survey by the Bank of Albania and INSTAT which shows that 35% of the total remittances comes from Greece, despite Greece having the highest number of immigrants (BoA, 2011).

The Agenda Institute suggests that remittances originating from Greece account for 41.9% of total remittances, followed by Italy with 38.6% (Agenda Institute, 2011). Also, this study indicates that the yearly average number of remittances received amounts to 1,400 Euros, which means that migrant's families in Albania receive payments of up to 115 Euros per month. The survey conducted by the Bank of Albania on the other hand showed that in 2009 remittances from Italy accounted for 55% of total remittances. This disparity can be attributed to the shifts that might have occurred during the 2009-11 period, with a margin of error also accepted as a cause.

In order to assess the trend for the year 2012, we obtained data for the first quarter of 2012 and compared it with the same quarter of 2011 and 2010. Data obtained from the Bank of Albania shows that the value of remittances in the first quarter of 2012 increased by 4 million Euros compared to the same quarter of 2011. This represents an increase of 2.5%, which indicates a reversal of the negative trend observed from the first quarter of 2010. Given that most Albanians who send remittances to Albania live and work in Greece, it is likely that the economic troubles in Greece have meant it is safer for them to retain their savings in Albania. However, we believe that this increase is part of the returning home process and a considerable decline in remittances from Greece is expected in the short and medium terms.

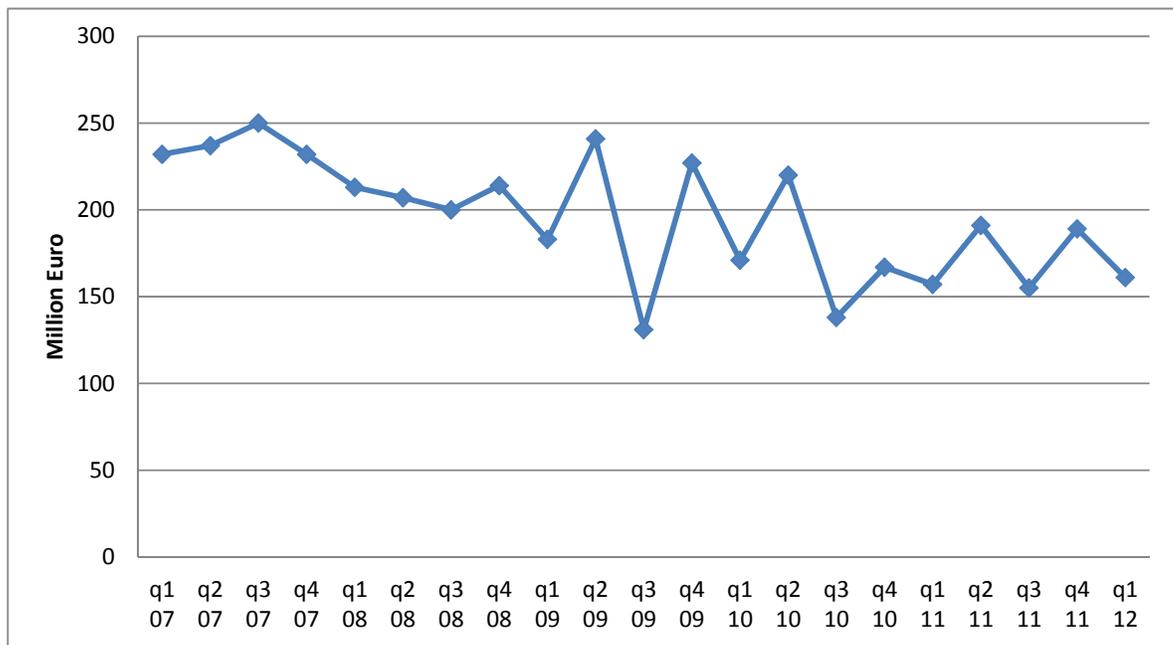


Figure 7. Remittance flows by quarters of years

b) Capital inflows and direct investments

Empirical work on the role of Foreign Direct Investment (FDI) in host countries seems to suggest that FDI is an important source of capital, complements domestic private investment and is usually associated with new job opportunities. In most of the cases, it is related to the enhancement of technology transfer and generally boosts economic growth in host countries (de Mello, 1997). On the other hand, the FDI-growth relationship in developing countries suggests that FDI has a positive impact on economic growth, but this also depends on other crucial factors such as the human capital base in the host country, the trade regime and the degree of openness in the economy (de Mello, 1999). Other research suggests that FDI is central in achieving poverty reduction (Klein et al., 2001). According to Klein et al., FDI is a key ingredient for successful economic growth in developing countries. This is because the very essence of economic development is the rapid and efficient transfer and adoption of ‘best practices’ across borders. Many studies show how important FDI has been for ensuring economic growth in Eastern Europe. In particular, a study by Neuhaus (2005) shows that FDI was the engine of growth in Central and Eastern Europe in late 1990 as it contributed 2.3 percentage points to the economic growth of 3.5% on average (i.e. 74%).

FDI continued to steadily increase between 2003 and 2008 in Eastern Europe and according to a PWC report during this period (PWC 2011), inflows between 2003 and 2008 increased from 30 billion USD to 155 billion USD. However, the same report suggests that FDI inflows were 50% lower in 2009 than in 2008.

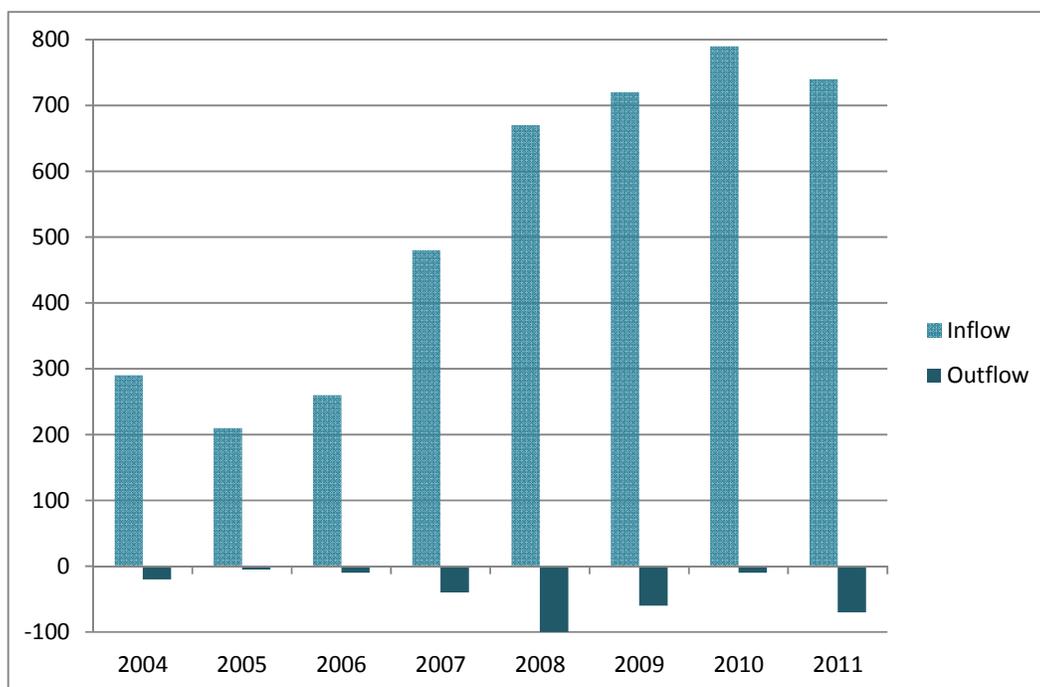


Figure 8. Albania: FDI inflows and outflows, 2004-2011 (Millions of euro)
(UNCTAD, 2011)

As part of the Eastern Europe region, Albania fared well during the 2008-2009 period. According to data available from the Central Bank of Albania (Year), the FDI in 2008 was 609.8 million Euros and in 2009 this increased to 668.2 million Euros, equating to a 9.6% increase, while in 2010 the FDI increased even further to 822.6 million Euros. Data obtained from UNCAT (2011) shows that FDI inflows increased from one quarter to one third of the value of gross domestic capital formation from 2009 (717 million Euros) to 2010 (793 million Euros). This fell back again in 2011 (742 million Euros). Despite this drop in FDI levels, Albania has performed well in attracting FDI, given that during the period of 2010-2011 no major privatizations have been made in the country.

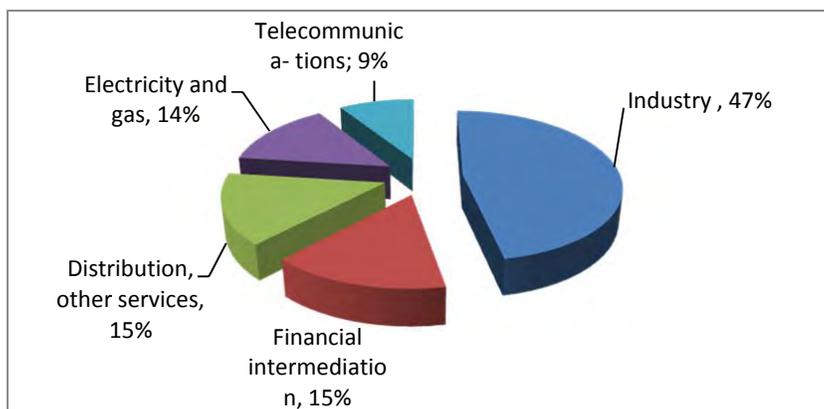


Figure 9. FDI inflows by sector, 2011

However, data from the Central Bank of Albania suggests that in 2011 the stock of foreign direct investment reached 2.6 billion Euros, equivalent to 37% of the national product. Figures show that this is the lowest in the region, whereby for neighbouring countries this figure ranges from 43 to 138% of GDP. According to the Central Bank of Albania, Albania remains behind its neighbours given its low starting point, since in 2004 the investments as a percentage of national product were only 11 per cent, while for other countries the figure was two to three times higher. The data shows that foreign direct investment in Albania began to grow rapidly after 2006, up by more than two times from 15% to 37%. Currently, foreign enterprises in Albania circulate at around 29 per cent of the total turnover in the economy.

The report on foreign direct investment in Albania (UNCTAD, 2011) suggests that the industrial sector (including manufacturing and mining) accounted for almost 50% of the inflow of FDI in 2010 and 2011, with mining and metal working being the main recipients. Some labour-intensive industries such as apparel and footwear have attracted a large number of projects with modest amounts of capital, mainly from Italy and Greece.

However, the concern is that FDI only represents major industrial projects such as electricity and not sectors of the economy that might increase employment such as the agriculture sector. According to UNCAT (2011), FDI stock in agriculture represented only 0.3% of the total FDI stock in Albania in 2010, and 2.1% in food, beverages and tobacco manufacturing (UNCTAD, 2011). Therefore, when formulating its policies

towards FDI in agribusiness, including agriculture and related processing and service activities, the government needs to focus on the development impact of such FDI and not its volume, which is expected to remain limited.

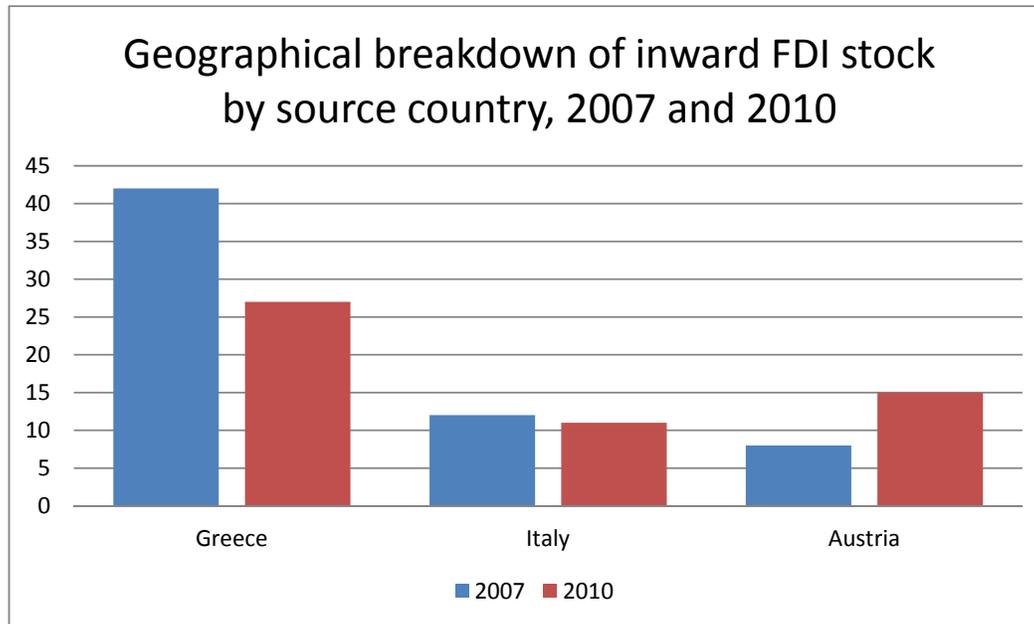


Figure 10. FDI by main countries (%)
(UNCTAD, 2011)

Albania receives an exceptionally large portion of its FDI from Greece, which has been the main investor over the last 20 years. However, due to the considerable economic crisis in Greece, FDI originating from this country in 2011 was fifteen percentage points less than three years earlier, reaching 27% of the total FDI (see figure 10). In 2006, the share of Greek FDI to Albania was almost double at 53%. It is also important to note that FDI in Albania has diversified to activities where Greek investors do not have firm-specific advantages. Greek FDI focuses on telecommunications and financial intermediation where the capital stock has even declined since the foreign takeover. This is due to the fall in Greece's FDI whereby the share of EU members has declined in the Albanian FDI stock from almost 80% in 2006 to 67% in 2010.

The considerable decrease of Greece FDI in Albania was compensated by Austria, Turkey and Canada, who confirmed their increasing trend in terms of FDI to Albania in 2011. This can be considered one of the main direct effects of the Greek crisis in Albania. Although the decreasing trend started early in 2005, in 2008 there was a dramatic decline. Considering the fact that Greece is still the main investor country in Albania, future possible decreases in FDI in the near future might be problematic in terms of total investments. The increase in investment in Austria (14%), Turkey (11%) and Canada (14%) constitutes very large single projects and therefore cannot be considered a steady trend.

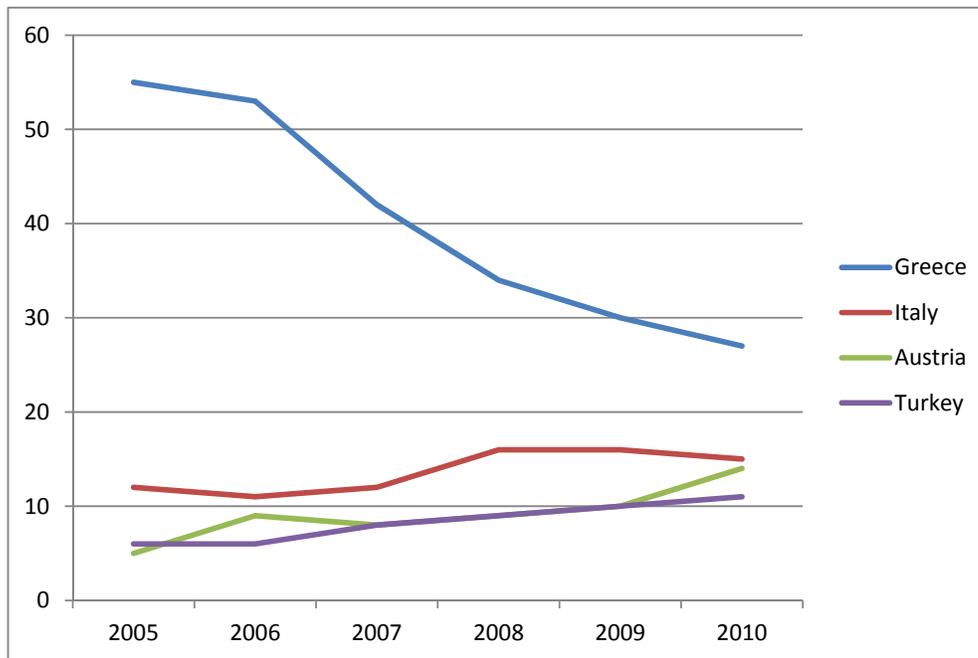


Figure 11. Share of FDI in Albania by country (%)
(UNCTAD, 2011)

c) Bilateral trade and trade balance

Greece has been one of the major trade partner countries for the last 20 years, surpassed only by Italy. This bilateral relation has been based on the European Union provisions for the country. Since 1992, under the Economic and Trade Cooperation Agreement between the European Union and Albania, trade between the countries immediately reached high levels of exchange, especially in terms of Greek exports to Albania. For 15 years this trade regime offered Albania the opportunity to import and export to Greece, expanding its market and economy. In 2006, the Interim Agreement, which included the trade provisions under the Stabilization and Association Agreement signed by Albania with the European Union, provided a new framework of trade opportunities by removing most of the tariff barriers between the countries. However, this coincided with the first signs of the Greek crisis and therefore the agreement's potential positive effects were undermined. Since 2008, a continuous decrease of trade flows has occurred between the countries. In 2011, the Albanian trade volume with Greece reached 68,008 million ALL, having decreased by 16.3% from 2010. Exports were valued at 9,788 million ALL, having increased by 12% in 2011. The trade deficit reached 48.453 million ALL, having decreased by 19% mainly due to the converse trend between exports and imports. The imports coverage ratio was 17% and has increased by 4 percentage points (ACIT, 2012).

The effects of the crisis are also visible in terms of loss of share on total trade. In 2007 exports to Greece were at 8.2% of total Albanian exports, occupying the second position in the ranking of Albanian exports' destination. While in 2011, the share had dropped at

4.9% putting Greece at the fourth place in terms of Albanian exporting partners. The same has happened with imports, which went from 15% on total in 2007 to 11% in 2011.

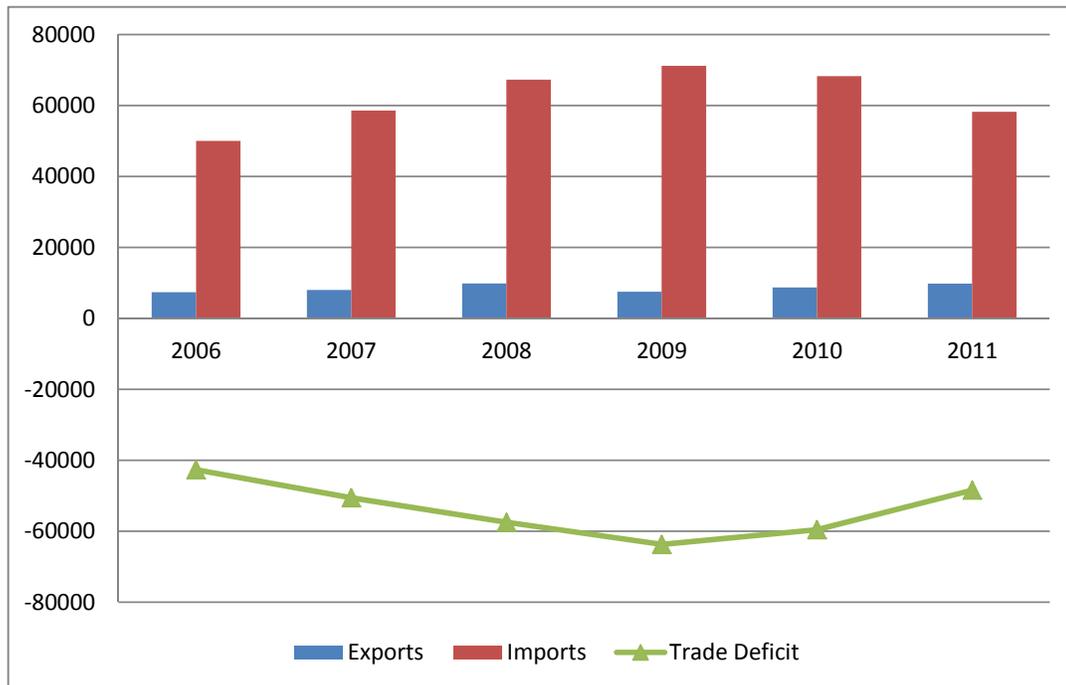


Figure 12. Trade flows between Albania and Greece

A shift has also occurred in trade components over the last 4 years. In contrast to 5 years ago, exports to Greece are now mainly represented by main metals and have replaced textile products which are now the second most exported product to Greece. Main metals were valued at 3,428 million ALL and increased by 57% since 2010 and represent 35% of the total exports to Greece. Exports in textiles also increased by 7% in 2011 and reached a value of 3.116 million ALL. This concentration in a specific category is an attempt to fill the vacuum created by the decrease of exports in other main sectors, most importantly in textiles. On the other hand, products that have experienced a drop in exports in recent years have included wood products, meat and dairy, construction material and footwear. The graph in figure 13 gives a more detailed view of the structure of exports to Greece during the last year.

In terms of the trade balance, Greece has been a net exporter in Albania for the last 20 years. Despite the decrease of the deficit in the last few years, due to the increase of Albanian exports and decline of imports, the trade balance between the countries remains disproportional. Albania still imports almost 7 times more product than it exports to Greece. This is significantly beyond the average total trade of Albania, where the ratio of exports to imports stands at 1 to 3. In the short and medium terms, trade balance is expected to maintain the current trend and trade deficit might decrease further, but in small amounts. Due to the economic structure of the Albanian and Greek relationship of

the last 20 years and due to the dominance of Greek investments in Albania, the balance cannot improve, nor can important shifts be experienced in the coming years.

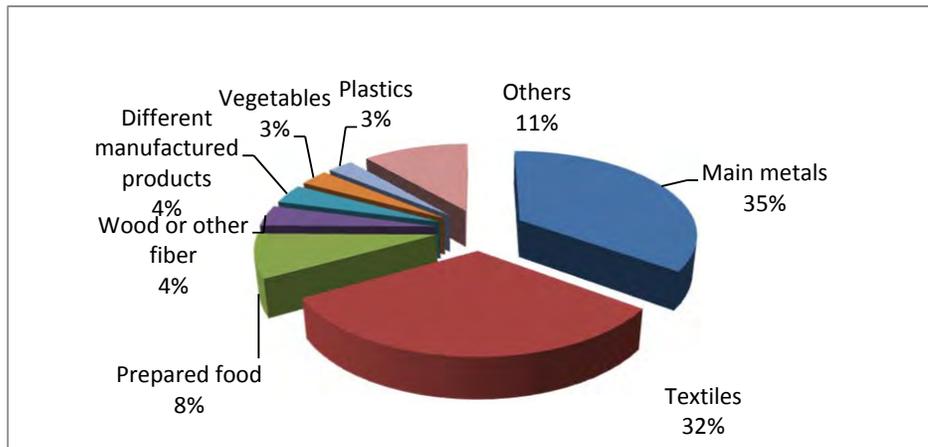


Figure 13. Albanian exports to Greece 2011, by sector

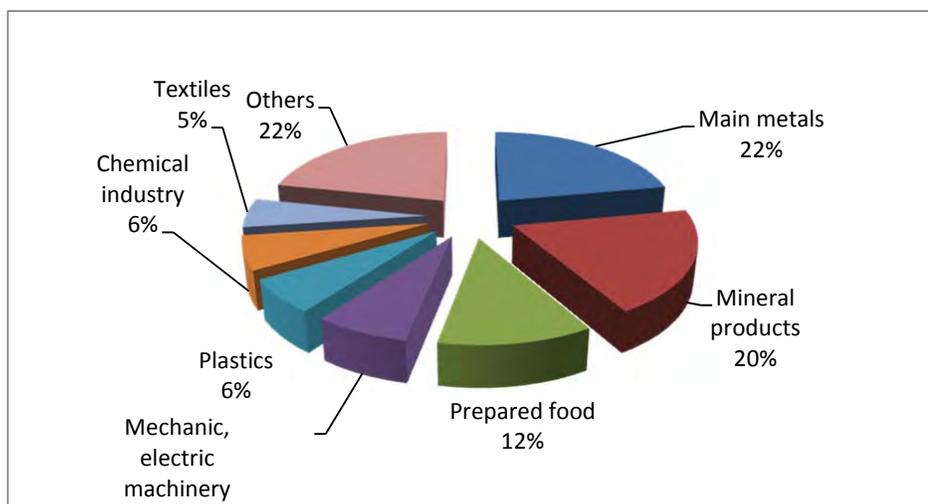


Figure 14. Albanian imports from Greece, by sector

The ten most exported products to Greece account for 59% of total exports. The main exported item is ferrous waste and scrap which has doubled in weight compared to 2010. In 2011 it accounted for 30% of total exports to Greece with a value of 3.073 million ALL and an annual increase of 121%. Tobacco exports (a main exported product in the past) fell by 5% and accounts for only 4% of total exports to Greece. Until a few years ago, all exports of Albanian tobacco were directed to Greece. Due to the crisis, since 2008 Albanian producers have been searching for other markets.

Imports from Greece are mainly represented by construction materials, such as bars and rods which account for 11% of total imports at a value of 6,501million ALL reflecting an annual increase of 42%. Imports of light petroleum on the other hand halved in value to 4.863 million ALL. The top ten imported products account for 38% of total imports.

Conclusions: main risk factors from the Greek crisis

This study has attempted to contribute to the public debate on the current impact of the Greek crisis on Albania. The experts' opinions differ on some specific issues, but as our research and analysis showed, policy makers need to pay particular attention to a number of major factors. After analyzing all the data and discussing and brainstorming the data with experts and economists involved in this issue, we believe that there are three main risks for Albania in the short and medium terms:

1. The pace of the return of Albanian migrants is one of the worrying factors that need to be monitored carefully. As the Greek economy continues to remain in recession and the unemployment figures remain above 22%, the Albanian migrants working in Greece that will return to Albania will put under pressure the already fragile health and education system. Albania in the short term cannot increase its social security net or invest in its health system as it is significantly lowering public spending in order to maintain its public debt at less than 60% of GDP. This pressure might create room for a 'social bomb' in terms of a high demand for service that is poorly funded. In the short term, there might be some positive effects from the returnees, such as stimulating internal demand, especially in the housing sector which is stuck, as well as increased consumption, investments, etc. However, in the medium term, the pressure put on state authorities to offer services might be an important and problematic risk.
2. Many predictions and speculations have been offered that Greece might abandon the Euro, thus re-introducing the Greek currency, the drachma, which would depreciate in value by more than 60%. This would affect Albania directly through two main channels. First, Albanian exports to Greece would become more expensive and thus a significant drop in exports is expected in such a scenario, leading to a deterioration in the balance of trade. Secondly, the situation for Albanian immigrants in Greece would deteriorate and thus lower remittances by at least half the value. The fear of the exit from the common currency could be the cause of the significant increase in the past two years in the number of Albanians working in Greece depositing Euro in Albanian Banks. Apart from the likelihood of the introduction of the drachma, trade with Greece is likely to be affected by the continuing recession in the country. According to ACIT (2012), the imports coverage ratio was 17% and this increased by 4 percentage points. However, the data shows that in contrast to 2010, exports to Greece are mainly represented by main metals replacing textile products which are now the second most exported product to Greece. The fall in exports of textile is likely to impact the inward processing industry which employs about 100,000 workers in Albania. Therefore, the continuation of the crisis in Greece would further endanger the portion of the inward processing sector that is related to Greece and create a number of social costs in the short term. In the medium term, companies usually reallocate their

resources and search for new economic partners in other countries, therefore we predict lower risks.

3. The Bank of Albania and the government of Albania have on many occasions stated that the banking system in the country is well capitalized and is capable of withstanding any risk deriving from Greece or the Eurozone. However, in 2008 at the beginning of the global financial crisis, the Albanian public reacted to the negative news from abroad by withdrawing a substantial amount of their deposits and thus almost triggering a banking panic in the country. This had immediate (although little) repercussion on the economic system. If Greece exits the Eurozone, it is likely that the Albanian public might behave in the same manner (or even worse) as it did four years ago and therefore disrupt the banking system.

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- Ministry of Interior of Albania, Migration Department
- INSTAT Tirane
- Ministry of Labor, Social Issues and Equal Opportunities, Migration Department
- IOM, Tirane
- Migration desks, Tirane
- UNDP, Tirane
- Municipality of Korca
- Prefektura and Keshilli i Qarkut Korca
- Regional Police Directorate of Korca
- Migration Office of Korca
- Employment office, Korca
- Municipality of Gjirokastra
- Regional Police Directorate of Gjirokastra
- Migration Office of Gjirokastra
- Employment office, Saranda
- Municipality of Saranda
- Regional Police Directorate of Saranda
- Migration Office of Saranda
- INSTAT Saranda
- Employment office, Saranda



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FINAL REPORT OF TECHNICAL ASSISTANCE FOR DEVELOPMENT CREDIT AUTHORITY (DCA) AGRICULTURE LENDING IN ALBANIA



SEPTEMBER 2012

This publication was produced for review by Assist Impact and the United States Agency for International Development. It was prepared by Enio Jaco.

Conclusions and Recommendations for Technical Assistance Program of DCA Agriculture Lending in Albania

FINAL REPORT

Submitted to: Assist Impact and
USAID/Albania

Date: September 2012

Submitted by: Enio Jaco

Contents

- Contents 3**
- Abbreviations4**
- 1.0 Executive Summary 6**
- 2.0 Access to Capital remain significantly low for Albanian Agriculture..... 7**
- 3.0 Benefits of DCA and criteria for a successful implementation..... 7**
- 4.0 Partner Banks..... 8**
- 5.0 Lessons Learned from previous DCA programs in Albania..... 9**
- 6.0 Key Barriers to Credit..... 9**
- 7.0 ProCredit approves the launch of a new Agriculture loan product..... 10**
- 8.0 BKT approves the launch of bank’s first Agriculture loan product..... 11**
- 9.0 Conclusions..... 12**
- 10.0 Recommendations and Next Steps 13**
- Appendix I: Activity of DCA Technical Assistance program..... 17**
- Appendix II: Individuals involved in the DCA Technical Assistance 18**
- Appendix III: Results of survey with BKT Relationship Managers20**

Abbreviations

AAC	Albanian Agriculture Competitiveness Program
ABA	American Bank of Albania
ABMC	Association and Business Management Center
ALL	Albanian Leke
AZHBR	Agriculture and Rural Development Agency
BKT	Banka Kombetare Tregtare
CBA	Central Bank of Albania
COP	Chief of Party
DCA	Development Credit Authority
GDP	Gross Domestic Product
EU	European Union
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (successor to GTZ)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
CU	Credit Union
CR	Credit Registry
IPA	Instrument for Pre-Accession Assistance (EU agricultural investment program)
KASH	Albanian Agribusiness Council
MoA	Ministry of Agriculture
MIS	Market Information System
M&E	Monitoring and Evaluation
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organization
PR	Program Review
PRR	Program Review Report
RM	Relationship Manager
SME	Small and Medium Size Business
TA	Technical Assistance
USAID	U.S. Agency for International Development

USD

United States Dollar

1.0 Executive Summary

In September USAID/Albania signed a DCA guarantee agreement with two local banks, ProCredit and BKT to facilitate lending in Agriculture. The following report is the result of a Technical Assistance program that preceded the contract signing and implementation. The DCA facility partially guarantees loans to Agriculture clients (as well as some other specified sectors) for \$7.5 million to ProCredit and \$7.5 million to BKT. The purpose of the Technical Assistance is to work closely with partner banks and AAC ensuring a successful and rapid launch of DCA program. The primary focus of the report is to describe the findings of the 6-week TA program, its achievements and outline the Conclusions, Recommendations and Next Steps.

Banking system in Albania is relatively well developed, but access to credit remains challenging and insufficient for Agribusinesses and farmers. Lending in Agriculture is significantly lower than other sectors. Credit to GDP ratio is 21% for the economy as a whole but only 1.7% for Agriculture sector. Demand alone however is unlikely to guarantee DCA's success. Important factors including a careful assessment of market barriers, strong loan product offering to address market needs, lessons learned from similar local programs and assistance of a loan referral system are critical to ensure program's success.

While DCA's partner banks are in two different development phases of Agriculture Lending, both enjoy unique strengths and ability to successfully utilize the facility. At ProCredit, Agriculture Lending is one of its organizational strengths. Throughout its 12-year experience, the bank has built an outstanding loan portfolio of \$26Million and 4,000 clients. ProCredit uses specific Agriculture loan products and an advanced Agriculture value chain methodology. BKT is the #2 bank in the country and growing. It is in early stages of Agro Lending developments but the bank has significant strengths in SME and Retail and has shown impressive ability to outgrow its competitors. The bank has now a total of \$4M loans in Agriculture represented by 20 clients. BKT enjoys strong relationship with Ministry of Agriculture and its management is highly supportive of the DCA program.

A Market Research study was conducted to identify biggest barriers to credit. Research showed that the biggest hurdle to getting credit in Agriculture is bank's requirement for Guarantee or Collateral. Lack of Flexible loan products and high Interest Rates were also key impediments to accessing credit by farmers. Both partner banks understood the significance of these hurdles and wisely designed product changes to address these challenges.

At the end of September ProCredit will launch ProAlternative, a new loan product to finance customers with acceptable risk but lower or no collateral available. The product will be closely linked with DCA. The new product is significant because it lowers the collateral threshold by 50%. The minimum collateral requirement for the new product varies but starts as low as 20-40% depending on loan's amount and maturity. ProCredit will promote its new product during a nationwide marketing campaign starting in October.

As part of the DCA program, BKT is launching its first ever *Agro Loan* product loan. The loan product is designed for agribusinesses and farmers without collateral for up to Mio I ALL (\$9,030). In addition, BKT's new Agro loans will offer a variety of flexible repayment options including Irregular payments and loans with Grace Period. BKT will also offer Agriculture loans for higher amount, up to ALL 25Mio (\$230,000) with standard collateral requirements and flexible terms repayments. BKT will create a

dedicated Agriculture department in head office and specialize loan officers in three regions. Both bank's product are significant and potential market changer for Agriculture Lending in Albania.

A technical assessment of DCA leads to a highly positive conclusion about the program expecting a rapid launch. Several factors point to this conclusion. Agriculture markets demand for Capital is high as previous barriers to credit and a perception of high-risk by banks has led to very low credit supply levels. Both partner banks are highly committed to the program and their highest management has been involved with program design. Banks Ag departments wisely incorporated the learning from market research into new product designs. As a result the new products targeted collateral requirements, which is expected to be impactful in the market. ProCredit will launch a new product by lowering Collateral requirement by 50% while BKT for the first time is launching a new Agro loan with no Collateral requirement. Newly launched products will be highly promoted during marketing campaigns in September and October respectively. Lessons learned at Raiffeisen Bank, which implemented a DCA before were carefully analyzed and addressed in the current design. In support of the DCA program, AAC will refer loans to banks and will organize Socialization Events to facilitate bank's new product offers.

Final program success however will rest with the Implementation phase for which some follow-ups are critical. In addition to their Marketing campaigns, it is recommended that banks search their internal databases for customers that were previously rejected. These customers are high potential for the newly designed products. Secondly, it is recommended that USAID and partner banks agree to have periodic Program Reviews to check progress and identify early potential weaknesses. Progress can be tracked only with a meaningful report and assigned targets in advance. Thirdly, AAC's customers must be first to benefit from the new loan products. To facilitate the referral process, AAC and partner banks have agreed to arrange common Marketing events and set up an effective loan referral system.

2.0 Access to Capital remain significantly low for Albanian Agriculture

While banking system in Albania is relatively well developed, access to credit remains challenging and insufficient for Agribusinesses and farmers. Lending in Agriculture is significantly lower than other sectors - Credit to GDP ratio is 21% for the economy as a whole but only 1.7% for Agriculture sector. In addition to high demand, a continuous flow of Emigrants primarily from Greece is returning to Albania. It is estimated that 170,000 temporary workers have already returned and others are expected to come. Many Emigrants are returning with enhanced business skills and modest savings to invest. Others may have good technical skills that would be very useful to current enterprise if credit would be available. The returning Emigrant situation has the potential to further increase the gap between demand and supply for credit.

A perception among banks exists that lending in Agriculture is high-risk, which is the reason most banks have largely shun away from Agriculture lending. Three events are changing that perception. First, ProCredit has steadily and successfully been building its Agro Lending business, reaching a sizable portfolio of \$26Million. Secondly, three other banks, BKT (the second largest bank), Credins (an active local bank) and Raiffeisen (the largest bank in the country) are making decisive steps towards entering into Agriculture Lending. Thirdly, USAID just entered into a DCA agreement with ProCredit and BKT. The DCA program has the potential to be a turning point for Agriculture Lending. A successful implementation of the facility in a ripe environment, has the ability to not only change the behavior of participating banks but also to move the market in a positive new direction by unleashing credit and breaking with the past tradition.

3.0 Benefits of DCA and criteria for a successful implementation

USAID's Development Credit Authority (DCA) offers partial loan guarantees to private lenders to achieve economic development objectives. DCA has been a very successful instrument for USAID. Globally, a total value of \$270 Million has been disbursed through DCA by local banks in 68 countries. DCA guarantees help mobilize local capital and put it to work in creditworthy but underserved markets. Credit assistance has been particularly useful in areas such as microenterprise, small enterprise, public services and Agriculture. DCA offers the following attractive advantages:

1. **Encourages lending by reducing risk** – USAID covers up to 50% of the net loss on the principal amount of loans, sharing the risk with the private-sector partner.
2. **Builds the lending capacity of local financial institutions** – guarantees provide local financial institutions with the security to extend credit and expand into new sectors. Encourage local financial institutions to start or test lending in new markets that may otherwise be cost-prohibitive or perceived as high-risk.
3. **Provides a demonstration effect** – by demonstrating the sustainability and profitability of development activities supported by credit guarantees, local institutions are more likely to expand financial services to traditionally underserved economic sectors and social groups.

What makes DCA successful? Previous experience shows that DCA success is highly conditioned by several factors. Since bank's are the ultimate risk-taker and implementer of the program, DCA goals should be integrated with bank's internal goals to be effective. A careful examination of market barriers

to credit is critical because those obstacles would be the main targets of product improvements for banks. Lessons learned from previous local DCA programs are also important so that they are addressed in the current design program. Previous experiences show that a quality referral program from third-party agencies is significant backer of a rapid launch. Finally, reporting and a periodic Review meeting between USAID and partner banks is key to measuring progress and determining continuous improvements. The next chapters outline these factors in more detail and describe some measures taken to address them.

4.0 Partner Banks

ProCredit. A review of bank's Agriculture lending program shows that ProCredit manages an advanced lending program with a clear and specific development focus in Agriculture. Throughout a 12-year lending experience with Agriculture, ProCredit has built an outstanding loan portfolio of €21 Million (\$26 Million) with 6,000 active clients in Agriculture of which 4,000 have a loan. The bank has an active and unique approach/philosophy to lending which is applied across the 21 country-network bank. An intense client relationship approach with a higher than average Loan Officer/Client ratio, has produced positive results for ProCredit. The bank has a significantly lower Default Rate than the average Albanian bank. This has proved to be important because unlike its competitors, ProCredit has not stopped or slow down lending (in general or Agriculture) during the current European crisis. The bank employs 19 Loan Officers dedicated to very small Agriculture loans (€3,000 - €30,000) and 6 Loan Officers for small Agriculture loans (€30,000 - €150,000).

The bank uses relatively advanced Agriculture loan products including Seasonal Loans (loan repayment is adjusted as per client's business seasonality), Grace Period Loans and Bullet Loans. During the last 2-3 years ProCredit moved from a product-centric approach to a customer-centric approach. The range of products matches those of advanced institutions specialized in Agriculture loans. ProCredit uses a decentralized credit approval process, which allows branches and Loan Officers to make quick loan approval decisions without waiting for Head Office approval. Organizationally, ProCredit has a stand-alone Agriculture department managed by Anjeza Kelmendi, Agro Business Sector and Ilir Pilku Agriculture Specialist.

ProCredit's management was highly supportive of DCA program with intentions to start on a fast track. Flutura Veipi, Spokesperson of the Management Board and the Agro Sector Manager were personally involved with program design and product changes. The analyses at ProCredit focused on performance of existing Agro products with the purpose of identifying lowering credit threshold so that a sizeable but not a riskier segment of Agro customers would benefit from product changes.

BKT. A review of bank's Agriculture lending program shows that the bank is in early stages of developing an Agro Lending program. Currently, BKT has no formal lending program in Agriculture. Some loans in Agriculture exist however where customers are booked through the Agency for Agriculture and Rural Development (AZHBR) program. The bank has now a total of \$4M loans in Agriculture represented by 20 clients. BKT is a well-known bank in the country with a successful track record, a disciplined approach and a strong retail and commercial program. While BKT's closest competitors have slowdown Lending, BKT is growing. Overall loan losses has been lower than average (compared to the market), an important indicator of a successful Lending policy. Their large network of branches is well suited to take advantage of Agriculture lending.

During the last 4 years, BKT has developed a strong partnership with Ministry of Agriculture. The partnership was reached through the implementation of the AZHBR program and coordination with

Ministry's regional agencies. BKT has a successful history of managing programs with third-party agencies. The bank is the primary implementation partner for SME program with Italian government, Municipality guarantee loans with USAID, AZHBR and EFSE programs.

The bank's management demonstrates a strong commitment to the DCA program with a clear objective to manage the program successfully. The Head of Commercial Banking Department, Mr. Pekhan Isipek, was personally involved in program design and implementation. He was supported by a team of managers headed by Admir Mlika, Commercial Banking Manager, Eridon Pashaj, Head of Public Sector, Ermal Shyti Commercial Banking Analyst, Erinda Zoto Assistant Manager of Commercial Banking and Enida Vladi Analyst at Commercial Banking. The short-term challenge for BKT was to set up an Agriculture loan product and develop an appropriate organizational structure to implement DCA and start Agro lending.

5.0 Lessons Learned from previous DCA programs in Albania

Internal management and lack of visibility, the main reasons DCA was slowly utilized at Raiffeisen Bank. In order to understand the critical success/failure factors of a DCA program in Albania, a series of interviews and analyses were conducted with senior managers at Raiffeisen. Analyses show that DCA program was leveraged slower than expected mostly due to internal reasons. At the time, Raiffeisen feared that the guarantee aspect of the program would be miss-handled by clients and Loan officers. For this purpose Raiffeisen did not reveal the existence of facility to its loan officers. This resulted in poor utilization of the facility by the branches. Internally, Risk department was in charge of the program with Business being only vaguely aware of the program. This internal organizational setup led to a conservative utilization of the facility.

Additionally, no Product changes, improvements or Marketing were designed along with the DCA. Raiffeisen did not receive a Technical Assistance program to help a more effective launch. The bank was not able to take advantage of client referral process from USAID's projects at the time. Finally, the program's tracking progress was not strong enough to alert managers for the weak start-up. Lessons from Raiffeisen program were carefully considered during program set-up with both partner banks and USAID.

6.0 Key Barriers to Credit

Collateral, Flexible products and High Pricing are key obstacles to credit in Agriculture in Albania. A Market Research study in August 2012 showed that the biggest barrier to getting credit in Agriculture is bank's requirement for *Guarantee* or Collateral in the form of Real Estate Housing or Land and/or Equipment Pledges. Lack of Flexible loan products and high Interest Rates were also key impediments to accessing credit. The research study was conducted by compiling previous finding and interviews with clients, Bank Executives, Loan officers, review of loan applications and discussion with AAC management. The purpose of the analysis was to identify key credit impediments to clients soliciting Agro loans. The market research purpose was also to identify key sub-sectors with high potential. In coordination with BKT's management, a survey with representatives of three regional branches Shkoder, Fier and Elbasan was conducted. The results of the Survey are summarized in a table at the Appendix of this report. While High Pricing is a constant complaint especially by small farmers, Pricing still ranks third in the list of impediments since other barriers such as Collateral disqualify clients entirely.

Considering that houses in rural areas are either un-registered or not recognizable by banks, Agriculture Land is often the only source of Collateral that farmers can offer. Unfortunately there are several reasons Agriculture land is still not widely availability as collateral. Farmers usually face challenges getting certificates of ownership, some include actual conflicts over ownership and in many areas registrars of titles and mortgages are not properly functioning or require under the table payments. The other issue related to land is that of Land Fragmentation. As the Albanian Agriculture is moving from subsistence farming towards commercialization the ability to join forces and be organized in associations will be highly critical in the future. This movement however is highly related to land ownership. While land is not the subject of this project, given its importance the issue of Land registration becomes important and should be addressed by another project or related party.

7.0 ProCredit approves the launch of a new Agriculture loan product

ProCredit is preparing to launch ProAlternative, a new Agro loan to finance clients with low or no collateral in Agriculture

ProCredit's AgroBusiness sector has completed the design of a new loan product ProAlternative which will provide financing to customers with acceptable risk but lower or no collateral available. The new product ProAlternative is still in design phase and expected to receive formal approval from ProCredit management. The ProAlternative loan product is designed to be linked with USAID's DCA guarantee program. The new product requires on average 50% less collateral amount compared to the standard Agro loan product. The reduction is significant for the banking sector because collateral value required by banks is usually between 100% - 140%. The minimum for the new product varies but starts as low as 20-40% depending on loan's amount and maturity.

Accepting customers without collateral is expecting to make a strong appeal for loans in the Agriculture market. ProAlternative will not alter the risk level that the bank will take; only the collateral criteria are reduced. In addition, ProAlternative offers an extension of Grace period from 6 months to 12 months. It will also extend loans with no-hard collateral requirement (Hipoteke) from 3 to 5 years. Below is a highlight of key product changes:

- Collateral requirement is reduced by **50%**
- Loans up to €15,000 require *only* 20-40% collateral coverage (Pledges)
- Hard Collateral (Hipoteka) is **eliminated** for the range of €10,000 - €15,000 loans; existing policy is 60%
- Grace period is **extended to 12 months** compared to existing policy of 6 months
- More flexible conditions for Start-ups, including Emigrants
- Agro-Processor a *priority sub-sector* with less restrictions.

Product Life and Promotional Support. ProAlternative is envisioned as a new product with the option to be rolled out as a permanent if performance is successful. Loan officers and branches will be given an internal offer period of 3 months (until December) to test all features and functionalities. The product will be extended afterwards if no major issues are encountered during the pilot. During the internal Pilot period, AgroBusiness department will retro-select all rejected customers with acceptable risk but no collateral. The new list will be provided to Loan Officers to solicit customers who would be qualified now. A national Marketing campaign starting in October will highlight key product benefits for customers via a national multi-channel communication campaign. ProAlternative will have a separate code in the system and will be tracked and monitored separately.

Communication Strategy. A delicate balance of the guarantee feature of the new product is chosen in the communication strategy. When communicating the new product launch, ProCredit will balance two goals: minimize the risk created by clients potential “misunderstanding” of the “guarantee” while effectively communicating the benefits of the new product. To balance these competing goals, a message highlighting only the new product benefits will be presented to Loan Officers. The guarantee element will not be part of the communication message to Loan Officers. At the center of the communication strategy will be the launch of the new product ProAlternative. The main communication message to Branches and Loan Officers shall contain:

- Features of the new product ProAlternative, highlighting changes and benefits for clients
- Reality of customer demand shows significant demand for loans without collateral
- Target group: *Non-Collateral* customers and *Start-Ups* with acceptable financial profile
- Risk shall remain unchanged only collateral requirements are lower
- New product is aligned with overall bank’s development goals; expected beneficiaries could be new Emigrant workers returning
- Continuation of a test/pilot period – decision to roll-out when product performance is measured
- The guarantee element is omitted from the communication message

8.0 BKT approves the launch of bank’s first Agriculture loan product

BKT launches its first ever AGRO Loan. No collateral is required for small borrowers

BKT’s Commercial Banking Group completed the design of a new loan product for borrowers in Agriculture sector. The new loan product named *Agro Loan* will provide financing to customers with no collateral. Agro Loans without collateral will be up to Mio I ALL (\$9,060). This is a significant credit policy change in Agriculture considering high collateral barriers in the past. Collateral requirement for similar loans in Albania ranges from 100% - 140% of the loan value. In addition, BKT’s new Agro loans will offer a variety of flexible repayment options including Irregular payments (Seasonal) and loans with Grace Period. The new Agro loan product is expected to receive formal approval from BKT’s management. The new program will be linked to USAID’s DCA guarantee program. BKT will also offer Agriculture loans for higher amount, up to ALL 25Mio (\$227,000) with standard collateral requirements and flexible terms repayments. Accepting customers without collateral is expected to make a strong appeal for loans in the Agriculture market. Below is a highlight of new Agro loan product:

- Loan Amount: 100,000 ALL – 25 Mio ALL
- **No Collateral** will be required for loans up to 1 Mio ALL
- Agro Loans are structured with a maximum life tenure of 5 Years
- **Flexible** Loan Payments will be a highlight of the product and is to include *Irregular* (Seasonal payments) and loans with *Grace period*
- Regional trained staff to support Agro loans applications will be in Fier, Shkoder and Elbasan
- A Unit of 2 Specialists, reporting to Commercial Manager will be dedicated to Agro loans
- BKT will continue its successful practice of *application’s reference* with Ministry of Agriculture and regional agency support
- Processors, Livestock and Traders to be designated as priority sub-sectors

Marketing campaign for Agro Loan. Internally, BKT will promote the new Agro loan by training the Loan officers and branches with the features and benefits of the new product. Externally, BKT

expects to launch the new product during the third week of September at a venue/event that will be determined by the management. The details of the marketing campaign are being determined by BKT marketing team and will include a variety of media channels.

Strategic partnership with third parties. Strategically, BKT will take advantage of the existing strong relationship with the Ministry of Agriculture. The Agriculture department will continue its successful practice of *application's reference* with Ministry of Agriculture and seek its regional agency support for individual loans. Additionally, BKT will extend cooperation and technical support from AAC, a USAID funded project. AAC's role will be to provide BKT with client loan referrals and specific technical support related to crop production cycles in order to assist BKT's loan product structures. Considering that Agro loans will start with a relatively low Loan Officer base, these strategic partnerships will be important support functions.

Targets. To assess the program performance, an overall target/budget on annual and monthly basis will be developed. Considering that the loan product is new and average loan amount is expected to be significantly lower than the typical BKT commercial loan. For this purpose, BKT is considering distributing specific Agro loan targets to Loan Officer, Branch or Branch Manager as appropriate with BKT structure. Experience shows that without specific targets, the program often is not in focus or not taken advantage properly by branch managers or loan officers. A race or a similar program inviting Loan Officers to compete for loan approvals is also being considered. The target structure or the race is to be determined.

9.0 Conclusions

The DCA program in Agriculture Lending in Albania has achieved a number of important technical objectives in design and set-up phases. The progress made was satisfactory from the perspective of preparing partner banks for the DCA implementation phase. Overall the assessment of the program is positive and a rapid launch of the DCA is expected. The main reasons for expecting a successful launch are the followings:

- a. Agriculture markets demand for Capital is high. Lending in Agriculture is significantly lower than other sectors - Credit to GDP ratio is 21% for the economy as a whole but only 1.7% for Agriculture sector. In addition to high demand, a continuous flow of Emigrants primarily from Greece is returning to Albania. The returning Emigrant situation has the potential to further increase the demand for credit.
- b. DCA Agreement is flexible for banks and USAID. The agreement gives banks significant degrees of flexibility to guarantee the types of loans that they see appropriate.
- c. Supportive leadership at both partner banks. Bank's management and operational staff are highly committed to implementing DCA successfully and achieving results. Technical Assessment at both banks was conducted in a highly productive and professional working environment.
- d. Market impediments were carefully considered in new product designs. Key market impediments of Collateral, Flexible repayments and Pricing were accepted and considered in product design.
- e. Strong Product Offering. Partner bank's made substantial changes to new product offerings. ProCredit will launch a new product by lowering Collateral requirement by 50% while BKT started a new Agro loan (for the first time) entering in market with no Collateral requirement.

f. New loan products will be highly visible through Marketing campaigns. ProCredit is expected to launch the new product at a large Marketing campaign in October. BKT will announce its new product at the end of September via a high-profile impactful event.

g. Lessons Learned were addressed. Success/failure factors at Raiffeisen Bank, which implemented a DCA before were carefully analyzed and addressed in the current design. Current programs were designed to have internal high visibility and management responsibility.

h. Loan referrals from AAC. AAC clients are a strong potential segment because they have received substantial Ag Technical Assistance. AAC will refer clients in need of credit and will organize Socialization Events to facilitate banker's presentations.

While the above achievements are substantial, the final DCA success will be guaranteed by an effective Implementation phase. Final success during the Implementation is conditioned by several factors. The following section describes in more detail some of these important elements.

10.0 Recommendations and Next Steps

Program Review. It is recommended that a separate agreement with partner banks is reached to conduct a DCA Program Reviews on quarterly basis. The purpose of the Program Reviews is to track progress and raise issues early by addressing or correcting them in advance. While both partner bank's management is highly committed of DCA, changes in responsibilities, staff or internal objectives may lead to shift in focus or priorities. Through Program Reviews, USAID can ensure that the program is still on track and in coordination with banks take measures or provide support as appropriate. Progress must typically be measured against Targets or expectations. For a further analysis of the progress, a review of loans on Regional basis is preferable. Agreement must be reached in advance with specific dates for the meeting. It is important that appropriate high level of management is present at the PR meetings. It is recommended that Flutura Veipi and Anjeza Kelmendi from ProCredit and Pekhan Isipek and Admira Mlika from BKT participate at the Program Review meetings. *DCA Program Review Report* explained in the next section is the preferred tracking mechanism.

DCA Program Review Report (PRR). PRR measures the progress of DCA program on monthly basis. Key variables indicating financial performance are %Change, Loan Amount and Facility Number and Volume Change. Performance should be measured against individual targets. For instance if a bank's goal is to complete DCA in 2-years time, then the monthly disbursements (expressed in the report by Volume Change) should be \$300,000. Since Lending in Agriculture is seasonal a fuller picture of the progress can also be determined through Facility Number, Loan Amount and % Change. Any performance below these targets should be considered as early warning and a deeper analysis of regional, branch and individual Loan officer should be performed to determine reasons for deviations.

DCA Program Review Report

All amounts in USD	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Loan Amount								
Facility Number								
Avg Loan								
% Change								
Volume Change								
Borrower's Gender								
Collateral								
Economic Sector								
Ag Sub-Sector								
# People Employed								
Applicant returned to Albania								
Loan Referred by AAC								
Loan Referred by Rritje								

The following attributes are part of the PRR:

<u>Loan Amount:</u>	<i>Total Accumulated Loan Volume</i>
<u>Facility Number:</u>	<i>Total Accumulated Number of Loans</i>
<u>Average Loan:</u>	<i>Loan Volume divided by Facility Number</i>
<u>% Change:</u>	<i>Loan Volume Growth month over month</i>
<u>Volume Change:</u>	<i>Absolute Loan Volume Growth</i>
<u>Gender:</u>	<i>Borrower's Gender (M/F)</i>
<u>Loan Amount:</u>	<i>Total Accumulated loan Volume in Monthly basis</i>
<u>Collateral:</u>	<i>Yes or No</i>
<u>Economic Sector:</u>	<i>Agriculture, ICT, Footwear, Garments, Textile, Tourism, Recycling</i>
<u>Ag Sub-Sector:</u>	<i>Processing, Production, Storage/collection, Trade of agricultural products, Livestock, etc</i>
<u># of Employees :</u>	<i># of Individuals employed by the borrower</i>
<u>Borrower is recently returned to Albania:</u>	<i>Yes or No</i>
<u>Referred by AAC:</u>	<i>Yes or No</i>
<u>Referred by Rritje:</u>	<i>Yes or No</i>

Note: While *DCA Program Review Report* is a valuable tool for a performance review for banks and USAID, it does not constitute a contractual obligation for banks.

Targets. Program Review with partner banks is effective only if Targets are known. Banks should be able to determine the time-period they would like to utilize the DCA. A disbursement window of 1-2 years is recommended but targets must come from bank's internal analysis and goals. The most important factor however is an early agreement for what the Target will be. The monthly volume target (Volume Change) is the most important Target indicator. Targets can be adjusted due to actual performance or external factors. Internally banks should distribute the targets on Regional, Branch and Loan Officer level.

Socialization / Marketing Events with AAC's clients. While banks will have their own Marketing campaigns, it is important that AAC's clients are well known with bank's new product and take advantage of these lending opportunities. AAC has agreed to host 30-50 such events with all the grower groups and associations. Since AAC shall organize separate events for each partner bank the total number of activities can be as high as 100. It is therefore recommended that AAC plans these activities well in advance during the last 2 weeks of September and starting the implementing during October. The activities should be chaired by AAC Regional Specialists in Fier/Lushnje, Shkoder, Sarande and Korce respectively and supported by AAC leadership in Tirana. AAC should simply play the facilitator role and allow bank's representatives to present their products. Bankers should be prepared to give customers an opportunity to fill loan applications on the spot at the end of the event.

AAC or its successor organization as a business/loan facilitator and TA provider. AAC has practical limitations considering a project end date early next year. While this limitation is recognized, some ideas for continuity are provided either for AAC or its successor organization. AAC has provided valuable TA expertise to a network of associations, groups and individual clients. In addition, AAC is naturally positioned between banks and Agribusinesses and farmers. AAC's unique value proposition in the market can be further enhanced in four directions:

- Continuing to provide **TA expertise** to its growing network of Agriculture clients. The demand for TA services will only grow as Albanian agriculture products enter into EU or other quality markets.
- Become an important source of **quality loan referrals** to partner banks. Developing this capacity requires closing the business skills gaps identified during the DCA TA program and building an effective loan referral system with dedicated resources and responsibilities.
- AAC or its successor organization may develop a mutually benefitted relationship with banks by staying **engaged with client's post-disbursement activities**. Banks are concerned about the quality of their loan portfolio measured by Portfolio at Risk (PAR). By influencing the repayment process for its referred client, AAC would add significant value to banks and raise its profile as a trusted partner.
- Providing **Value Chain expertise** to banks to strengthen their Ag departments. Continued support with bank's Ag department will not only solidify the partnership, but also increase their lending quality by leveraging Value Chain linkages. With ProCredit the partnership would consist of supporting the Triangle of Cooperation method, while for BKT it would primarily consist of Agriculture sub-sector analysis.
- Developing capacity to provide **business-strengthening services** to its clients. Most Agriculture clients lack basic accounting books financial statements or basic business plans. Adding Business-strengthening services to its capacities would be of significant value for commercial farmers and

agribusinesses. These competencies will be in high demand during EU financing opportunities, expected to become available with the country's approaching candidate status.

Financing 'Rritje' Clients through DCA program. While partner banks are encouraged to utilize DCA for Agriculture loans, opportunity exists for special clients of Rritje program (ICT, Footwear, Garments, Textile, Tourism, Recycling etc) to be financed through the DCA program. To determine this opportunity and set up bank's internal mechanism to process these loans it is recommended that a separate two-three week TA process is conducted between partner banks and Rritje program. The goal of the TA would be to access the loan potential of Rritje clients, set up an internal working mechanism at Banks to finance them and design a functional loan referral system.

Appendix I: Activity of DCA Technical Assistance Program

- 1) **Aug 6 – 18: Market Research.** The purpose of Market Research phase was to identify main challenges and opportunities in Agriculture Lending in Albania. 10 bank managers, 3 bank regional Loan officers and 7 clients were interviewed to provide feedback. In coordination with bank's management, key potential areas of product improvements were determined. A full analysis and examination of reasons for success and failure of a previous DCA program at Raiffeisen Bank was conducted.
- 2) **Aug 20 – 25: Technical Assistance dedicated to ProCredit Bank.** The purpose of this phase was to assist, mentor and reach agreement with ProCredit management about technical specifications of credit product changes. During this phase product changes were determined including client qualification criteria and high-level pricing direction. Marketing campaign related to DCA program was also defined.
- 3) **Aug 27 – 32: Technical Assistance dedicated to BKT.** The purpose of this phase was to assist, mentor and reach agreement with BKT management about technical specifications of credit product changes. During this phase product changes were determined including client qualification criteria and high-level pricing direction. Marketing campaign related to DCA program was defined.
- 4) **Sep 3 – 8: Technical Assistance dedicated to AAC.** The purpose of this phase was to assist and mentor AAC team by preparing it for the supporting role during the DCA program. This phase culminated with a 2-day training session to seven AAC specialists. The training covered Credit and Banking fundamentals, DCA principles and Value Proposition, Market Research findings, ProCredit and BKT lending program, Product changes that banks made, loan approval criteria and documentation and the specific role that AAC should play in the loan referral process.
- 5) **Sep 10 – 17: Formal Conclusions and Next Steps.** The purpose of this phase was to reach conclusions and distribute four tailored recommendations and next steps to USAID, ProCredit, BKT and AAC. This phase culminated with *DCA Roundtable* workshop meeting with four organizations. The workshop was conducted after the signing ceremony. Four representatives from BKT, three from ProCredit, two from AAC and three from USAID were present at the meeting. During the meeting the conclusions and next steps recommendations were presented. Four detailed Final

Reports with recommendations and next steps were also distributed to USAID, ProCredit, BKT and AAC.

Appendix II: Individuals directly involved in the DCA Technical Assistance Program

During the DCA TA program a total of 23 professionals (14 Male, 9 Female) were directly involved in the program either through training, mentorship or considerable input, advice or feedback. A full list of individuals involved in the program is below.

Institution	Location	Name	Title
ProCredit	Tirana	Flutura Veipi	<i>Spokesperson of Management Board</i>
ProCredit	Tirana	Anjeza Kelmendi	<i>AgroBusiness Sector Manager</i>
ProCredit	Tirana	Ilir Pilku	<i>AgroBusiness Consultant</i>
ProCredit	Tirana	Loreta Gogaj	<i>Marketing & Development Sector Manager</i>
BKT	Tirana	Pekhan Isipek	<i>Commercial Banking Group Head</i>
BKT	Tirana	Admira Mlika	<i>Commercial Banking Group Manager</i>
BKT	Tirana	Eridon Pashaj	<i>Public Sector Department</i>
BKT	Tirana	Erinda Zoto	<i>Commercial Banking Group Assistant Manager</i>
BKT	Tirana	Ermal Shyti	<i>Commercial Banking Group Specialist</i>
BKT	Tirana	Enida Vladi	<i>Commercial Banking Group Specialist</i>
BKT	Shkoder	Denada Bushi	<i>Marketing Director</i>
BKT	Elbasan	Altin Bushi	<i>Branch Manager</i>
BKT	Fier	Blerina Shkreli	<i>Loan Officer</i>
Raiffeisen Bank	Tirane	Evis Celiku	<i>Head of Retail Risk Management</i>
European Union Mission	Tirane	Llazar Kora	<i>Agriculture Specialist</i>

AAC	Tirane	David Anderson	<i>COP</i>
AAC	Tirane	Sabah Sena	<i>Associate Strength & Market Development Specialist</i>
AAC	Shkoder	Valentin Gocaj	<i>Outreach Specialist</i>
AAC	Fier	Pirro Rrapushi	<i>Regional Manager and Market Development</i>
AAC	Fier	Josif Liko	<i>Outreach Specialist</i>
AAC	Fier	Luto Gogaj	<i>Outreach Specialist</i>
AAC	Fier	Kostndin Koco	<i>Outreach Specialist</i>
AAC	Korce	Safet Shpathi	<i>Agronomist</i>

Appendix III: Findings from a survey with BKT Relationship Managers

Survey with BKT's Relationship Manager Survey about Agro Loans			
Question	Outcome Conclusion	Special Note	
1	Estimating demand for Agro loans	<ul style="list-style-type: none"> • Even though no specific Agro loan product, randomly clients approached BKT branches to solicit Agro loans. • Marketing: Client came to bank, no Relationship Manager proactive program yet (product not active yet) • Demand Estimates: an average of 10 loan requests during the last 3 months. 	<i>The demand statistics are likely to be higher since no records were available and RM's were not the only point of customer contact at the branch.</i>
2	Sub-sectors with highest demand	<ul style="list-style-type: none"> • Livestock • Medicinal Plants • Fruits & Vegetable • Processors (Oil, Food, Dairy) • Greenhouses • Traders / Consolidators 	
3	RM's current Loan Processing capacities	<ul style="list-style-type: none"> • Ranges from 7 - 20 loans / month on both Individual or Business loans. 	<i>Current loan processing volume is Shkodra highest and Fier lowest. An adjustment may be needed to adjust the reverse Agriculture demand in the regions.</i>
4	Critical Credit Impediment for Agro Loans	<ul style="list-style-type: none"> • Collateral • Flexible Loan Payment product • Interest Rate 	
5	Impediments - COLLATERAL	<ul style="list-style-type: none"> • # 1 rejection factor on 70 - 80 % of loan requests rejected 	
6	Impediments - FLEXIBILITY	<ul style="list-style-type: none"> • Second important knock-out factor but a distant next to Collateral • Loans with Grace period often unable to meet demand of Agribusinesses with irregular/seasonal repayments 	
7	Impediments - PRICE	<ul style="list-style-type: none"> • Price was sometime a refraining issue but not nearly as prohibitive as Collateral or Flexibility requirements 	<i>Price may be underestimated as an issue here since Relationship Managers provided clients with collateral based product pricing - in reality clients will face higher IR</i>
8	Competitor organizations active in Agro loans	<ul style="list-style-type: none"> • Union Kredi • NOA • ProCredit 	
9	Overall enthusiasm about a potential new Agro loan product	<ul style="list-style-type: none"> • BKT branches would be highly enthusiastic about the new Agro loans • Belief that product will be well received if Collateral requirement is lifted 	<i>RM's expressed caution that processing Agro loans must be accompanied by Tech support in HO</i>