

ANALYSIS OF PUBLIC EXPENDITURES IN SUPPORT OF AGRICULTURE DEVELOPMENT IN ALBANIA

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Abstract

Albania is considered an advantegous country for agriculture (possesing a rich land and water resources), but still its contribution to national GDP is relatively low compared to other sectors, thus implying a low relevance given from the government. This paper tries to analyse the budgetary expenditures in support to agriculture sector in Albania and its aim is to provide a preliminary assessment of these expenditures. For this reason, a first analysis of actual agriculture conditions is realized, related also to reforms undertaken from the government in agriculture support. Furthermore, trends are observed regarding budget funds allocated to agriculture in total and also in terms of composition (six main programmes are analyzed such as planification and management, food safety, rural development etc.). Some key parameters analyzed in the case of Albania are then compared to EU budget practices to reach a comparison with best practices and to signal some directions as where the budget expenditures could move to. This paper gives some conclusions on actions to be taken from the government in increasing efficiency and optimizing agriculture production (not only on the agriculture funds allocation but also on the level of public information access – on budget drafting and realization; advice offered to farm holders and better transparency on steps to follow in benefiting from concessional financing).

Keywords: Agriculture, public expenditures, Albania

Introduction:

Albanian agriculture is presented to Europe as a potential sector because of its geographical position, which provides suitable conditions for the cultivation of a wide variety of crops and varieties within them; breeding almost all kinds of livestock; with rich water resources; while the average age of farmers is young and with a tendency in implementing new technologies in production to meet European standards.

Financing in agriculture is mainly realized through support schemes under the government's agricultural policy by cooperating with various donors, as well as financing from the banking sector. This cooperation in general has enabled important developments in irrigation and drainage infrastructure, and improvements in legislation and market infrastructure.

Government support through its agricultural policy has been limited at some level due to the public budget, while agriculture financing from the banking sector is constrained from the high transaction costs of lending. On the other hand, insuring agricultural activities against market risks or natural disasters, has been almost nonexistent. These are some of the reasons why Albanian agriculture public financing has many challenges ahead in achieving optimization.

STATE OF AGRICULTURE SECTOR IN ALBANIA

In this section some important parameters of Albanian agriculture are presented in order to give a wider view of its actual conditions.

Agriculture sector in Albania is characterized of a diminishing growth rate of GDP during the last decade, and as such it has made not a major contribution to national economic growth.

Table 1: Agriculture GDP (in percentage)

	Years								
Agriculture, hunting and forestry; Fishing	1996	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture, hunting and forestry	35.1	18.6	17.5	17.1	16.8	16.8	18	18.2	18.9
Fishing					16.7	16.6	17.8	18.1	18.8

From the above table (Institute of Statistics, 2014) results that agriculture contribution to GDP was around 35% before 1997 (when the domestic financial collapse occurred), while in the last 10 years it contributes around 16%. The low level of GDP contribution clearly reflects the neglected potential of agriculture in the country. Indeed, agriculture accounts not more than 6% of national exports (for the last two years) while agriculture imports, for the same period, are at the level of 18%, leaving a considerable trade deficit in national economy.

Agriculture activity in Albania is dominated by small-scale farms, of not more than 1.5 ha as per 2012 figures (Institute of Statistics, 2014). Farm population is characterized from young age of 25-54 years (around 42% of total number of farms registered). Young population constitutes an advantage for agriculture productivity since labor force being more efficient and willing to work in fields.

If we analyze agricultural production structure, it can be observed that it is mainly dominated by forage, vegetables and cereals which also are the main food consumed in local / regional markets. Another crucial point which might affect agricultural production in general, are the organizing and structuring of commodity sectors, which in Albanian case are poorly structured. This is strongly determined from financial sectors itself being not developed (there is no formal stock exchange acting in financial Albanian market). Farmers are not familiar with longterm contracts (far way of having knowledge of future contracts) and they face a lot of infrastructure problems like inadequate rural roads, lack of information etc. Another factor that affects the involvement of farmers in commodity sectors is also their level of education. As it can be observed according to table 2 as per 2012 figures (Institute of Statistics, 2014) only 2% of farm holder have a university degree in agriculture, while most of them (63%) have a primary and lower secondary school diploma.

Table 2: Education of Farm Holder

Year	Primary & Lower Secondary school	Upper Secondary School		University	
		Agricultural	Other	Agricultural	Other
2012	219,409	103,102	13,328	7,466	2,311
%	63%	30%	4%	2%	1%

Farm units do face other constraints like low levels of standardization / equipment.

Table 3: Way to plow fields 2011 - 2012

Size of farm	Hand only		With animals		Tractors	
	2011	2012	2011	2012	2011	2012
0-1ha.	85,110	86,958	24,441	30,308	113,150	127,168
1.1-2 ha	84,748	77,727	29,347	23,932	116,658	120,301
>2 ha	34,966	27,263	12,690	9,384	50,085	41,799
Total Albania	204,825	191,948	66,477	63,624	279,892	289,268

In 2012, about 53% of farms used tractors. While overall agricultural land in Albania is 24% of total land (for the last 10 years). That means there are more opportunities in the availability of agricultural land expanding which can contribute to an improved and value added Albanian agriculture.

Last point to analyze in this section was the ability of agricultural farms in Albania to cover their expenditures. As such, total revenues were gathered (including revenues not only from agriculture but also from remittances and work outside the farm) which were compared to total expenditures of farms. The results are shown in tables 4-7 below.

Table 4: Farms with income from the work outside the farm

	Income in ALL				
	under 20,000	20,001-50,000	50,001-100,000	100,001-200,000	Over 200,000
Total no of farms	5,381	27,208	18,352	26,101	52,246

Table 5: Number of farms with income from emigration

	Farms with income from emigration ALL		
	Under 50,000	50,001-200,000	Over 200,000
Total no of farms	17,376	38,721	48,633

Table 6: Estimates of gross Income from crops and livestock

	Gross Income from Sales (000 ALL)			Income per farm
	Crops	Livestock	Total	
Total	49,834,415	59,041,056	108,875,471	310,261

Table 7: Total farm expenditures

	Expenditure for (000 ALL):				
	Agriculture	Livestock	Mecanichal	Others	Total
Total	19,497,808	4,305,734	801,346	2,808,968	27,413,856

The above figures show that around 40 – 45% of farm unit have income (in ALL) beyond the 200,000ALL limit, while 34-37% of them have income within the 50,001-200,000ALL interval. In addition, the income per farm as per gross income from sales is as an average 310,261ALL which strongly supports the idea that the farm units do realize in total revenues beyond the 200,000ALL level. But when considering the expendidures, it resultst that almost 71% of total expenditures in a farm are intended for agricultural expenditures and only 3% of total expenditures are for mechanical investments. These figures clearly state the difficulties in covering farm expenditures only with incomes from sales (without taking in consideration other outside incomes) and the low rate of agricultural investment which further deepens the agricultural production efficiency gap.

MAJOR POLITICAL STRATEGIES FOR AGRICULTURAL SECTOR

During last decade, the Albanian agriculture development process (including the surface of land used for agriculture, production efficiency, mechanization and structure of field crops plantings) has faced many challenges and difficulties. During the 90' (years when Albania entered in the transition economy) some of the reforms presented from government to stabilize the fast changing characteristics of the economy were:

- a) the distribution of control over prices in the market (the market itself, based on the actual demand and offer would decide for product prices);
- b) privatization and land distributing;
- c) the privatization of farm units.

In the “Rural Development Strategy for Albania” (World Bank, 2002) (an official document presented from Ministry of Agriculture and Food in cooperation with World Bank) it was clarified the position held from the government as per agriculture mechanization, noting that: *...since agricultural farms were too small to justify the cost of purchasing tractors and other agricultural equipment, private sector contractors may offer most of the machinery services... Technical benefits of mechanisation widely promoted were: efficient and timely preparation of land, realizing planting in time, appropriate plant fertilizing and protection, efficient and timely harvesting, and improvement of quality of agricultural culture.*

As noted in this document, central government / Ministry of Agriculture and Food was fully committed in improving mechanization in farm unit, but its role was not being involved in price setting of agriculture machinery or their maintenance services. On the contrary such functions were delegated to local entrepreneurs. This way more local government were empowered in directly affecting mechanization improvements in agriculture. Their reform actually did not end up being very efficient since the level of automatization was not improved (as latest figures showed) and because the same objectives as the 2002 Strategy document were also presented in the 2007 Strategy document (the later included the strategy for the 2007-2013 period).

In the “Rural Development Strategy for Albania 2007-2013” (Ministry of Agriculture, Rural Development and Water Management, 2007) main objectives presented as per rural development, particularly in view of Albanian agriculture supporting were: *“...Protection and enhancement of the environment by managing in a sustainable manner the natural resources of rural areas. Improving life quality in rural areas and promoting different economic activities by creating new job positions...”*. An initiative taken from the government to achieve the above mentioned objectives was the establishment of a state owned lending institution (The Agency of Agriculture and Rural Development). This Agency started functioning based on law number 9817, dated 22.10.2007 “For agriculture and rural development”, and the respective Council of Ministers decision number 1443, dated 31.10.2008 “About the establishment, organization and operation of the Agency for Agricultural and Rural Development, as a Paying Agency”. Its role was to be a paying agency to farmholders (a form of government credit). Through Ministry of Agriculture, Rural Development

and Water Management, the government applies direct payment scheme to farm units. The payments are related to new technologies, support for bio agriculture production, bee breeding, support to greenhouses extension, oil production as well as citrus, strawberries, nuts, pomegranates etc. Another form of state support to agricultural sector was the applying of low interest rates to agricultural mechanical tools for processing and storage of agricultural products and livestock. Two years later, in 2009, the Agency of Agriculture and Rural Development began operation. To date, over 25,000 applicants who meet the defined criteria, have benefited financial assistance of about 4.5 billion Lek. In accordance with the Council of Ministers decision and respective guidance, this initiative supported 17 different measures. In this context, particular attention was paid to new farms cultivating nuts, hazelnuts and pomegranate.

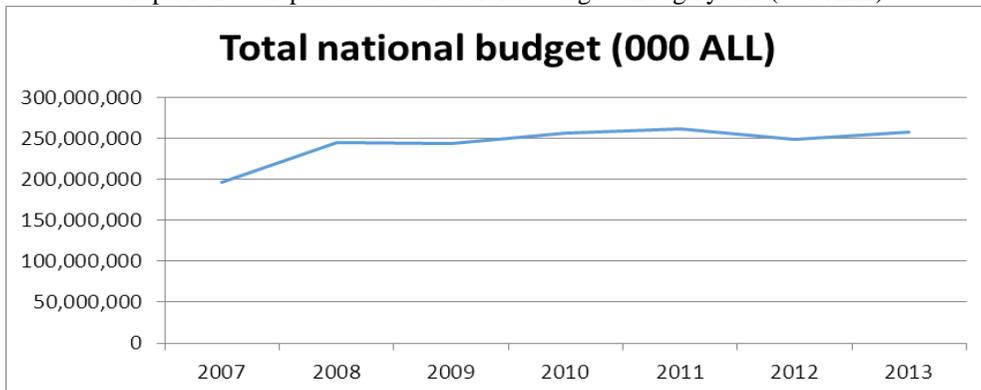
Even though the reforms undertaken from government were very good expressed on paper, the greatest difficulty of them to apply was their implementation phase. Main difficulty encountered was lack of detailed action plans and performance indicator for strategies follow up. Also, other difficulties to mention were that not often transparent procedures were in place for central budget follow up; lack of information to farmholders in the application procedures to gain loans with concessional terms, frequent changes of the budget during the year etc. Not to forget here also the education level of farm unit holders (which is already explained in section 1) and low penetration of internet access and usage in such areas which makes it even more difficult for farm holder to gain information on government supporting schemes to agriculture.

The new government has not more than one year in power, and support given to agriculture sector has been with the same direction as the previous one. But there is still time to see the improved efficiency in agriculture from the policies pursued by the government until the end of its mandate.

ANALYSIS OF PUBLIC EXPENDITURES FOR AGRICULTURE IN ALBANIA

This section tries to analyze how the national budget and specifically the budget assigned to agriculture has developed during the last years in Albania. Public expenditures figures taken into account in our study are those financed from the national budget (either central or regional governments) published from Ministry of Finance, Ministry of Agriculture, Rural Development and Water Administration, and also from Institute of Statistics in Albania. The figures published have been elaborated and compared to some values of EU data in order to have some trends compared as to what direction the central government support to agriculture is going.

Graph 1: Development of total national budget through years (000 ALL)



By analyzing the development of total national budget from 2007 – 2013, (Ministry of Finance, 2014) it can be seen that except of the evidently jump of 25% from 2007 to 2008 (in Albanian Lek from 196Mio to 244Mio), the expenditures for the ongoing years are within the same trend with small up and downs. From 2008 to 2013 there has been a decrease in total budget of 5% in 2012 (in Albanian Lek from 261Mio to 249Mio), while the other years the change in increase is no more than 5%. From 2008 (the year of the global financial crisis) the Albanian government has acted on limited budget funds, thus translated in limited funds for each of the other ministries (especially for Agriculture Ministry see Table 10 below).

The budget financing of Ministry of Agriculture has these main sources: (1) national budget; (2) foreign funding; (3) local costs; (4) VAT, customs duties; (5) the ministry's income. The budgeting process itself is not as transparent as could be to the farm holder or to any public person interested. The most important document that relates to, and which defines the main objectives of national agricultural policy has been the 4-year strategy (2007-2013). This document reflects the budgetary allocations under various programs, but on the other hand it does not detail the financing mechanisms. The latter are determined by the government, at the beginning of each agricultural season, but remain subject to numerous changes, amendments or reductions during the year. Such a process does not provide a sustainable structure for farm holders. Moreover, not all information means provide necessary access to farmholders about the type of support to which they may be chosen as preferential relating to agricultural policy.

Table 8: EU budget allocation for 2007 – 2013 (in million Eur, at current prices)

	Appropriations for commitments	2007	2008	2009	2010	2011	2012	2013
1	Sustainable growth	53,979	57,653	61,696	63,555	63,974	67,614	70,147
1.a	Competitiveness for growth and employment	8,918	10,386	13,269	14,167	12,987	14,853	15,623
1.b	Cohesion for growth and employment	45,061	47,267	48,427	49,388	50,987	52,761	54,524
2	Preservation and management of natural resources	55,143	59,193	56,333	59,955	59,888	60,810	61,289
3	Citizenship, freedom, security and justice	1,273	1,362	1,518	1,693	1,889	2,105	2,376
3.a	Freedom, security and justice	637	747	867	1,025	1,206	1,406	1,661
3.b	Citizenship	636	615	651	668	683	699	715
4	EU as a global player	6,578	7,002	7,440	7,893	8,430	8,997	9,595
5	Administration	7,039	7,380	7,525	7,882	8,091	8,523	9,095
6	Compensations	445	207	210	-	-	-	-
	Total	124,457	132,797	134,722	140,978	142,272	148,049	152,502

Table 9: EU budget allocation for 2007 – 2013 (in percentage)

	Appropriations for commitments	2007	2008	2009	2010	2011	2012	2013
1	Sustainable growth	43%	43%	46%	45%	45%	46%	46%
2	Preservation and management of natural resources	44%	45%	42%	43%	42%	41%	40%
3	Citizenship, freedom, security and justice	1%	1%	1%	1%	1%	1%	2%
4	EU as a global player	5%	5%	6%	6%	6%	6%	6%
5	Administration	6%	6%	6%	6%	6%	6%	6%
6	Compensations	0%	0%	0%	0%	0%	0%	0%
	Total	100%	100%	100%	100%	100%	100%	100%

From the above tables (European Commission, 2013) it is observed that in the EU budget during recent years, “Preservation and management of natural resources” weights around 40-45% of total budget. At the same levels is presented also the “Sustainable growth”. The other commitments are presented at lower levels, thus indicating that EU puts a significant role to agriculture developments. The weight against total EU budget for each of the above items varies from year to year and depends on priorities of policies that are followed from the Union. The same indicator was drafted for national budget in Albania for 2007-2013 period, shown in table 10 (Ministry of Finance, 2014).

Table 10: Albanian budget allocation for 2007-2013 (in 000 ALL)

	Years						
	2007	2008	2009	2010	2011	2012	2013
Ministry of Agriculture	5,515,970	5,783,850	5,953,454	7,275,226	7,961,788	6,781,298	6,775,480
Total Budget	196,408,018	244,729,105	243,851,019	256,267,280	261,404,430	249,214,137	258,129,356
Weight (%)	3%	2%	2%	3%	3%	3%	3%

Funds allocated to agriculture for the 2007-2013 period has fluctuated in the limits of 2 – 4 percent, while this sector contributes to over 20% to GDP. While funds dedicated to agriculture weights around 45% of total budget in EU, in Albania, funds allocated to Ministry of Agriculture weights around 3% of total national budget. A country which has high potential and physical advantages in agriculture production, it can be observed from the above figures that it is not in the priorities of the government for further support.

If we go in further analysis by detailing the allocated funds within Ministry of Agriculture, it can be observed that during last years priority is given to rural development and agricultural land management, total cost for which, compared to previous years, has increased from 52 to 171 percent. In total, the budget expenditure structure of Ministry of Agriculture has three main items focused: (1) management of drainage and irrigation infrastructure; (2) food safety and consumer protection; (3) rural development see table 11 (Ministry of Finance, 2014).

Table 11: Ministry of Agriculture budget allocation (in 000 ALL)

Budget Items	2011				2012				2013	
	Plan	Actual realization	Weight (%)	Variance (%)	Plan	Actual realization	Weight (%)	Variance (%)	Plan	Weight (%)
Planification, management and administration	237,000	221,919	4	84	435,089	420,189	7	(42)	251,000	4
Food safety and consumer protection	1,630,360	1,612,765	25	(4)	1,568,400	1,574,459	26	27	1,987,480	29
Management of drainage and irrigation infrastructure	2,674,349	2,471,031	42	(25)	2,004,299	1,933,310	34	(14)	1,729,400	26
Rural development	1,634,762	1,550,422	25	3	1,691,901	1,622,433	28	52	2,572,600	38
Agriculture information and consultation	232,520	210,297	4	2	236,435	222,166	4	(9)	214,000	3
Stable management of agriculture land	9,308	8,622	-	(17)	7,740	7,100	-	171	21,000	-
Total	6,418,299	6,075,056			5,943,864	5,779,657			6,775,480	

Another section dedicated to this study analysis was the Ministry of Agriculture expenditures realization. Such information was obtained from Ministry of Finance web page (public access), but due to lack of information for 2010 and 2014 (for 2014 only second quarter data were available), years taken in consideration for analysis were 2011-2013.

Table 12: Realization of budget for agriculture in total and as per programmes approved

		2011	2012	2013
Budget realization in total for Ministry of Agriculture		93.6%	96.6%	82.4%
Budget realization as per approved programmes	Planification, management and administration	98.9%	100.4%	87.3%
	Food safety and consumer protection	92.4%	96.5%	83.8%
	Management of drainage and irrigation infrastructure	94.8%	95.9%	84.4%
	Rural development	90.4%	94.0%	78.1%
	Agriculture information and consultation	92.6%	91.7%	88.1%
	Stable management of agriculture land			91.3%
	Water administration	94.7%	97.2%	45.1%

From the above table it results that budget realization in total for agriculture is near of 100% for the 2011 and 2012 while in 2013 a deeper decline in realization is observed. The same trend is observed even for specific programmes approved (there are 6 main programmes during the years as noted in the table) where a small increase in realization from 2011 to 2012 is observed, followed by a major decline in all programmes as per 2013. The principal factor affecting a higher percentage realization in the first two years comparing to 2013 is foreign financing.

If we consider the categorization of expenditures as current one and capital expenditures, the realization for the period taken in consideration is presented in the below table.

Table 13: Current / Capital expenditures realization in total and as per programmes approved

	2011		2012		2013	
	Current expenditures	Capital expenditures	Current expenditures	Capital expenditures	Current expenditures	Capital expenditures
Planification, management and administration	93.8%	89.6%	97.0%	62.0%	87.3%	0.0%
Food safety and consumer protection	94.0%	116.2%	98.1%	109.1%	97.5%	50.9%
Management of drainage and irrigation infrastructure	97.9%	90.3%	99.7%	94.4%	98.5%	63.0%
Rural development	94.5%	95.7%	98.1%	89.8%	80.3%	73.3%
Agriculture information and consultation	91.1%	79.7%	94.1%	93.4%	88.1%	0.0%
Stable management of agriculture land	92.6%	0.0%	91.7%	0.0%	91.3%	0.0%
Water administration					45.1%	0.0%
Total	94.8%	94.5%	98.1%	95.6%	90.8%	63.0%

From the above table it can be observed that for all the period taken in consideration the percentage realization in current expenditures in general is higher than capital expenditures. The “Food safety and consumer protection” programme constitutes an exception to the above trend due to the reason mentioned before (the foreign financing). Capital expenditures being in a lower level of realization than current expenditures, implies a more short term strategy in agriculture development than a long term one. Another element to mention is that same trend as per total expenditures is observed

for current and capital expenditures (such as a small increase from 2011 to 2012 and a higher decline from 2012 to 2013).

While taking in consideration only the approved programmes it can be observed that “Agriculture information and consultation” has the lowest realization in current expenditures for 2011 and 2012 while a small change is observed in 2013 meaning that the government has pointed out some importance to this programme according also to the national medium term strategy. “Stable management of agricultural land” has a 0% realization in capital expenditures for all the three years taken in consideration. Thus meaning that the government is not stressing out the possibility for increasing usage of agriculture land (actually only 24% of total land is used as agriculture land) in order to increase volume of production and usage efficiency of agriculture land.

It has to be mentioned that all the data presented, were obtained from public accessed information in the official site of Ministry of Agriculture and Ministry of Finance. To emphasize here the fact that in general the budget realization information is limited only on the percentage of realization (in total and as per different categories) but not focusing on the factor affecting such realization. In this manner not translating those factors in potential measures to be taken in the next years to achieve a higher realization (if we consider that only around 3% of national budget is allocated to agriculture and around 90% of them is realized).

Conclusion:

The analysis performed on the public expenditures as per agriculture for the 2007 – 2013 period, in Albania, reveals some defined trends for this sector not only in terms of volume but also in terms of composition. First observation is that public expenditures dedicated to agriculture constitutes not more than 3 percent of total national budget (implying a small relevance given to this sector from the government comparing to EU budget where 45% of funds are allocated to agriculture). In terms of composition (as per 6 main programmes approved from Ministry of Agriculture) major weight within agriculture budget is given to rural development and agricultural land management, total cost for which, compared to previous years, has increased from 52 to 171 percent.

Another observation to mention, regarding budget realization, is that there is a decreasing tendency in agriculture budget realization for the 2011 – 2013 period. This tendency is observed even in terms of composition as per main programmes approved from Ministry of Agriculture. In deeper analysis, considering capital and current expenses, capital expenditures are realized in a lower level than current expenditures, implying so that the government is following a short term strategy in agriculture development than

a long term one. Such observation is supported also from the level of mechanisation in farm units in last years were about 53% of farm use tractors in plowing fields. All the above trends signal that there are more opportunities in the availability of agricultural land expanding which can contribute to an improved and value added Albanian agriculture. Other actions that could be undertaken from the government are the increasing of public information regarding budget drafting and realization (giving information also for the reasoning behind the changes in the agriculture budget); more information as per steps to taken from the farm holders in benefiting from concessional terms financing from the government. In general, an increase in agriculture efficiency and optimization can not be realized without better production techniques, and better supporting efforts in information and advice to farm holders.

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