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July, 1994

Sources of Agricultural Credit in Albania¹

Albanian farmers obtain agricultural credit from many different sources. There are the Rural Community Bank working with the Economic Union and the World Bank, private joint ventures, and friends and relatives, especially those who have jobs abroad. However, the total loan money available is only estimated to be \$40 million.

The Rural Community Bank (RCB) is the single largest source of funds. The RCB was formed from the Bank for Agricultural Development. The formation of the RCB occurred late in 1993 when the uncollectible loans to the former agricultural cooperatives were removed from the balance sheet and some World Bank money (estimated at \$6 million) was turned over to the RCB. This allowed the RCB to start as a solvent entity.

The RCB has approximately \$25 million of loanable funds². These funds are all loaned to farmers as short term credit. These loans are mainly for seed and fertilizer. The money is paid directly to the suppliers whenever possible. The average loan is approximately \$700, and there are approximately 36,000 loans outstanding. The current interest rate is 26 percent, however it can be as high as 28 percent.

This interest rate seems reasonable for the following reasons:

- i. the inflation rate was estimated at 25 percent by Kristen Jorgensen (EU-PHARE and the World Bank) (See appendix A for another estimate.)
- ii. earning on money saved at the Saving Bank is 20 percent
Note: This is only for money placed in accounts for a year or more. Earning on short term (3 months or less) savings accounts can be 3 percent or less.
- iii. small average loan size leads to high service costs per lek borrowed
- iv. the high demand for additional loans

Officials of the World Bank working with the RCB felt the percentage of loan repayment was good, above 95 percent. However they had no hard evidence that this was true.

¹ This data was assembled by Gary Frank from information obtained on his trip to Albania in June of 1994.

² These monies are from deposits, by borrowing from other banks, like the Saving Bank, or from earnings. There is no ability to discount loans to a central bank here in Albania. The RCB can only loan the amount of money it has on hand, because basically this is a cash economy.

The World Bank has available an additional \$5 million to "improve development in rural Albania." The criteria for these loans is that the individual(s) demonstrate a need and a cash flow. These funds are off- balance-sheet funds³. Allen Pieper (from the World Bank) said that they expected these funds to all be loaned out within a year. They have not started loaning these funds because the paper work of getting the money into the country has not been completed. Apparently the central bank is rationing the inflow of money into Albania in an attempt to control the rate of growth and inflation.

The Economic Union (formally the Economic Community - EC) is here with about \$5.568 million (4.8 million ecu) in credit. This is split into \$928,000 in short term credit (all loaned), \$4,060,000 for equipment purchases (loaned to date), plus \$580,000 in new credit in the pipeline specifically for irrigation equipment.

All this EU money is loaned at an interest rate of 26 percent. (Apparently, they try to set the interest rate on all loans at the same rate.) Kristen Jorgensen felt that the turn over of these funds was 2.5 times per year and both principal and interest is loaned again almost immediately. The RCB receives 5 percent for handling these loans and this is paid out of the interest collected. Therefore the RCB has an interest in collecting and reloaning the money. These are off-balance-sheet funds.

The \$4,060,000 purchased 174 tractors, 400 pieces of related equipment, and 21 combines. This is only a small portion of the approximately 4300 tractors, 325 combines, and unnumbered pieces of related equipment and "hand tractors" that have come into Albania over the last couple years through various government programs and private enterprises.

The average size of these tractors is unknown. However, it is probably less than 40 horsepower, because 2000 of the tractors were small (approximately 25 horsepower) Chinese tractors that came in through a private enterprise. They were all sold in a 6 week period in the spring of 1994.

Note: I get the impression, from talking to farmers, that there is enough tractor power in Albania. I have been told that it is not a problem to get a tractor whenever you want or need one. In addition, farmers say that custom operators will go from one of their small plots to another without hesitation. This is much different than last year when they had to wait long periods and almost had to beg operators to work their land. A related story; two custom combine operators couldn't find enough work in the Lushnje district and came to the Tirana district. The operators in the Tirana district called the authorities and they made them return to the Lushnje district.

The remaining \$580,000 of Economic Union credit is for irrigation equipment. Not all of that money is not loaned out as of this date. Both of these last two funding sources are off-balance-sheet funds and the rates are at 26 percent with loan repayment periods of up to 7 years.

³ Non-repayment of monies loaned to farmers that are from on-balance-sheet funds affect the solvency of the RCB. Non-repayment of monies loaned to farmers from off-balance-sheet (EU-PHARE, World Bank) funds does not affect the solvency of the RCB. This allows and in some cases forces the RCB to make higher risk and longer term agricultural loans. (The RCB may be required to make specific types of loans in order to obtain the loanable funds.) However, the RCB has a vested interest in collecting the off-balance-sheet loans because that money becomes new loanable funds for the RCB.

The equipment loans are generally 6 year loans with an up front grace period of up to one year to allow the individual to get the cash flow going. The interest accumulates during this grace period and the borrower must make those payments, but no principal payment is required. Normally loans are not amortized. The principal due is simply divided by the number of payments to determine the amount of principal due in addition to the accrued interest. The number of payments on a 6 year loan varies, but is unlikely to be less than 12.

I know of the following other sources of funds, but I am sure there are more.

1. A Dutch joint venture project in Fier. They are loaning money to farmer for seed and fertilizer to grow beans for a processing plant. The loans can be up to \$2,000. They plan on processing and then exporting the beans. Sovica Nasaj in the PICU coordinator on this project and Pellumb Hurizij is the Albanian, phone 2332.
2. A German small scale project. They are located off of Alban Road, on Budi Road # 19. Gerd Weissgerber is the person in charge. When I finally got to talk to him I found out they are doing a drinking water project, not irrigation water.
3. The Irrigation Rehabilitation Project will be receiving funds from several countries. It's offices are located on the 3rd floor of the ministry. The advisors are Peter Van Houten and Bob Yardley. They are in the process of surveying irrigation systems. They will be working on the project selection and helping to determine the amount repair and maintenance these systems require, so that administrators have a starting point of determining the cost of irrigation water.

The Institute for the Study and Design of Waterworks will be overseeing the rehabilitation. The work will all be done by local contractors on bid. The hope to take advantage of farmer labor in the winter months.

The project is scheduled to include seven districts. They are: Fier, Lushnje, Kavaja, Durres, Tirana, Kruje, and Luçi. The initial phase of the project will concentrate on the first three districts. The money isn't here yet and they don't know exactly how much money will be available. They hope funds will start to arrive in August.

The work will concentrate on repairing the gates, aqueducts, and other fixed assets of the gravity flow irrigation systems. Peter didn't think there would be any money for irrigation pumping equipment and certainly none for drainage pumping equipment. He felt this last exclusion was a mistake because they badly need some drainage pumping (called hydrophore in Albania). He said thousands of hectares that were once producing are now salinated because of the lack of drainage pumps.

Note: Most likely some of these lands will never be farmed again and maybe should never have been farmed. Almost anything is possible if the cost-benefits ratio is not considered. Under to old system if it was technical feasible and for some reason they wanted to do it, it was done. The efficiency required was in the (pumping) technology. However technical efficiency does not always mean economic efficiency.

How would a farmer go about getting one of these loans? First they would apply at the RCB. If the

RCB did not have money available, the loan officers should direct the farmer(s) to one of the other options. However, this is not always the case, because the loan officers are not as well trained as they should be. Loans should be approved or disapproved within one - two months.

Appendix A

This following information on inflation is from Kastriot Selimi, the deputy under Ismial Beka. He is projecting inflation of only 8-10 percent for 1994. It was lower than I expected and I talked to him for about two hours. He gave me the following information about categories of expenses as I asked him. He seemed to be a wealth of information and if someone has other questions on inflation I would suggest talking to Beka or Selimi.

1. There appears to be almost no inflation in the price of food. He sights as evidence that the price of bread doubled in 1992 and now the price has started to fall; the price of milk was 50 lek/liter but now is as low as 35 lek/liter; the price of first quality meat was 200 lek/kilo in 1990 and it increased, then fell, and now appears stable at 250 lek/kilo; and that the price of fruits and vegetables has started to take on seasonal patterns.
2. The cost of fuel has doubled since 1990 and again seems to have stabilized. The current prices are 30 lek/liter for diesel and 40 lek/liter for gasoline, with some variance around the country (Note: With the number of gas station I see going up around the country, there maybe gas wars soon.).

The buses and intracity vans now all must have permits and the owners must state their route. The price is state controlled and will be raised if there are not enough carriers on a route. Also, the owners can get a fine if they overload on their route. I found this out because the driver (and owner) of a bus I was on got stopped and was given a ticket. However, this rule must not apply to the intercity buses.

The trains are now operating. The fares have been doubled and redoubled in the last year, so that now they are 8 to 9 times what they were. However, the fares are still very low, 100 lek to Vlore, a coastal town about 120 miles from Tirana. The bus would cost 250 to 300 lek.

3. The price of buying housing has dropped because there is so much new building and the price of the new apartments are less than what was being asked for the older apartments. Example: two rooms and a kitchen is considered the base housing price. The housing consisted of a bedroom, a multi-purpose room, a bathroom, and a kitchen. The price was \$20,000 in 1993, but now new ones sell for \$15,000 - \$17,000, so owners of older apartments are lowering their prices.

A word on the distribution of housing. If you lived in a house or apartment that was built before 1965, you received it free of charge. If you lived in housing built between 1965 and 1980, you were allocated a certain area of housing, depending on family size, free of charge and then given the option of buying the rest of the

housing you were currently lived in or moving to housing of the appropriate size. The same type of allocation was used for housing built after 1980, except that the area per person and price for the extra size differed. Kastriot estimates the extra housing is worth 60 to 70 times what the occupants paid for it.

4. In April the price of electricity was increased. The old rate was 0.8 lek/kw for the first 150 kw a household used per month and 3 lek/kw for anything above 150 kw per month. The new rate is 4.5 lek/kw for all electricity used. They were having to many problems with the dual rates.

In June the rate for water will increase about 50 percent. The old rate was about 50 lek per household per month. Kastriot added that they intend to have water 24 hours per day in Tirana by the end of 1995, even if they have to increase rates again.

5. General medical care is free, but there is a charge of special services. I asked for an example of a special service - he said a blood transfusion. Some other people then showed up at his door and I felt I had taken enough of his time and thank him and left.