

FOSTERING ACCESS TO FINANCE IN THE AGRIBUSINESS SECTOR

INTERVENTION BRIEF

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ALBANIA



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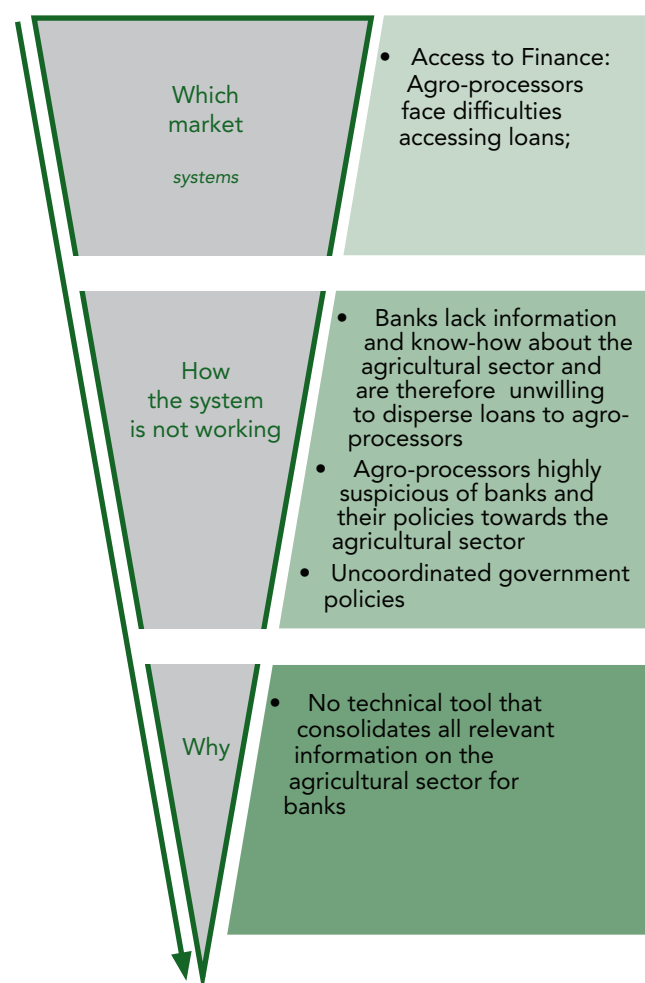
FOSTERING ACCESS TO FINANCE IN THE AGRIBUSINESS SECTOR

1. Understanding access to finance in the agricultural sector in Albania

Agriculture in Albania remains one of the largest sectors in the country, contributing to 20% of the country's GDP and employing 50% of the Albanian workforce¹. The sector, however, faces a range of challenges: from land fragmentation, limited technological innovation, lack of marketing and export strategies to agro-processors struggling to access finance. Lack of access to finance in particular hampers the sector's growth potential. A key indicator to assessing the strength of a sector is the loan/GDP ratio. Presently, only 4% of lending/GDP goes to agro-related businesses – dauntingly low, especially as the ratio is 40% for other sectors of the economy². Indeed, for the sector to generate decent growth, an estimated additional €600 million in financing is required³.

But why is this the case? Together with Creative Business Solutions, CBS, RisiAlbania launched research to investigate the root causes for agro-businesses' low access to finance

- Agro-processors: they consider loan interest rates as prohibitively expensive and not convenient for their financing needs. Moreover, many agro-processors believe the loan application process is intransparent, hiding additional fees and extra costs
- Agro-processors: Limited financial literacy and adequate business planning are major constraints in accessing loans
- Financial institutions: They lack information and knowledge on the sector, which has led to the sector's high risk perception, high interest rate and inaccurate risk assessment of the agro-processing sector. For example, seasonality is a major factor in devising an accurate risk assessment, which banks did not take at all into consideration. If they had, they could have developed more appropriate financial products and application procedures



While key constraints on the agro-processors' side needed to be addressed, there were already plenty of initiatives working with the demand-side. The project therefore decided to focus on the supply side⁴: the financial institutions.

¹ <http://agroweb.org/?id=10&l=2640&ln=en&url=507-of-albanian-employees-work-in-agriculture>

² http://cbs.al/AgroCapital_EN.pdf

³ Financial needs of the agro-processing industry and potential for interventions, CBS report, 2014

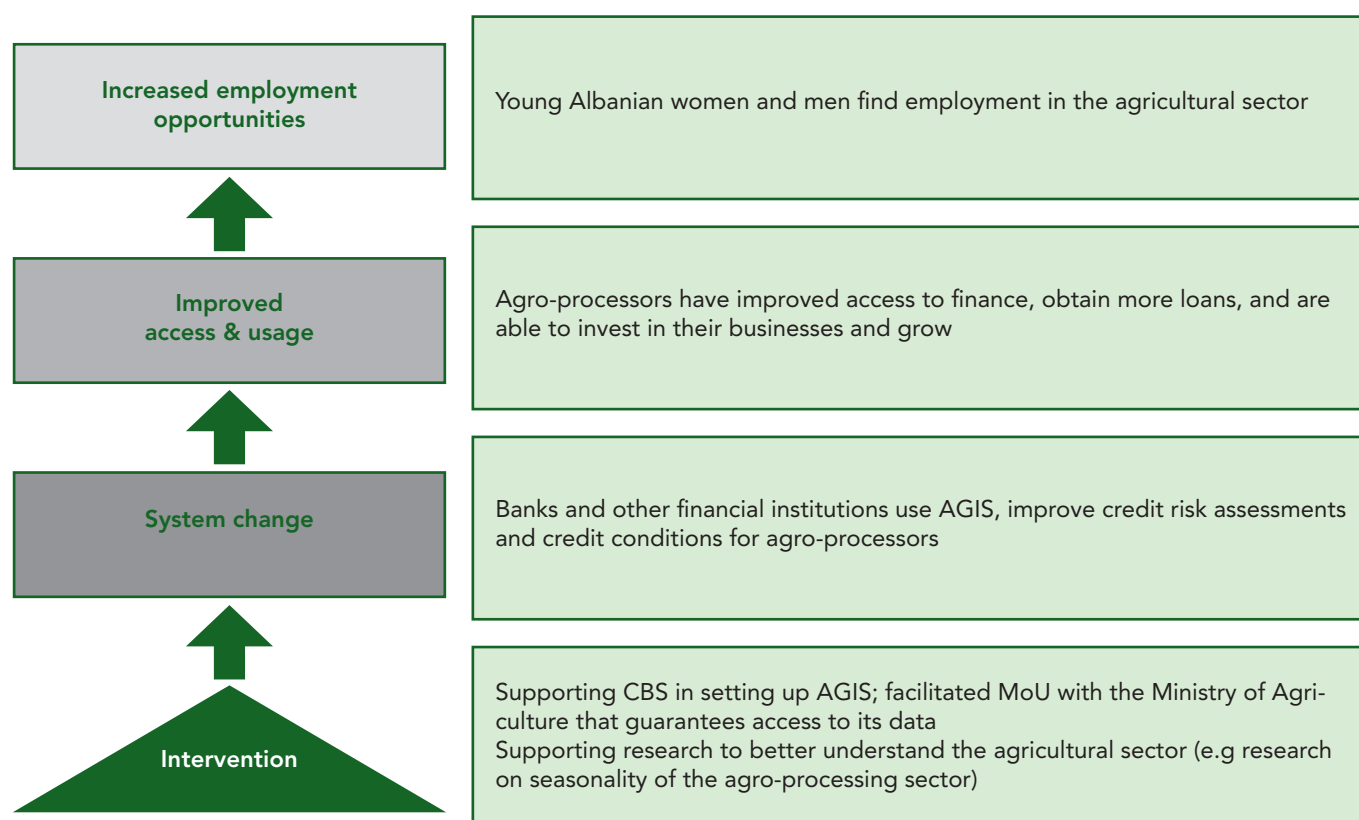
⁴ State agencies, such as AZHBR and many other donors already deliver financial services to agro-processors to improve their business planning, accounting, etc.

2. Overall Vision and strategy

In view of this, CBS and RisiAlbania sought to develop a specific, up-to-date, and user-friendly agro information system for banks: AGIS (Agricultural Information & Intelligence System). AGIS' key objective was to provide banks with essential sector information and deepen their understanding of the peculiarities of the sector (such as seasonality). This tool, the project envisioned, would allow banks to complete more accurate risk assessments of the sector and boost banks' confidence in their credit decisions vis-à-vis the sector thereby reducing credit risk and improving loan terms. Ultimately, this would lead to higher financing volumes for the sector, impacting sector growth and employment creation in the agricultural sector.

Key pillars of the strategy to achieve this vision were:

- Launch in-depth research on one specific factor that affects agribusinesses, namely seasonality, to make the "business case" for customizing loans among banks
- Develop business model for AGIS, clearly articulating who owns AGIS; defining packages for various target groups; devising fee plans; outlining how AGIS will be updated and where information will come from
- Testing period: AGIS was tested by 5 selected banks for a period of one year, and adjusted and improved according to the banks' feedback
- Stock-taking after testing period: evaluate how the business model of AGIS needs to be adapted (e.g. offering various packages for specific target groups) in order to ensure its sustainability
- Raising awareness: after the pilot-period, AGIS was promoted at various events to attract more users
- Explore whether there is a need and interest for similar platforms in other sectors such as tourism



3. Implementation

Key to the implementation of this intervention was finding a suitable partner. RisiAlbania initially worked with CBS on a research piece on the financial needs of the agro-processing sectors. Through this research, CBS and RisiAlbania started devising possible solutions to the financial needs of agro-processors – and CBS started to realize the potential in an endeavour such as AGIS: it became the key driver in establishing and overseeing AGIS.



Moreover, to ensure that AGIS would contain continuous up-to-date information, cooperation among institutions such as the Bank of Albania, INSTAT, and the Ministry of Agriculture had to be established. CBS took the lead in this, with RisiAlbania facilitating the interaction with the Ministry of Agriculture for up-to-date collection.

Beyond finding a suitable partner, conceiving a sound business model for AGIS was equally important: defining how AGIS could become financially sustainable and who would regularly update AGIS were critical components the project sought to address from the onset. In the present stock-taking exercise, various commercial options are being evaluated and readjusted.

In addition, the expansion of AGIS into other sectors, such as tourism, is presently being considered as there has been interest from the private sector.

4. Results

During the testing phase, 5 leading banks used AGIS (Intesa San Paolo, Raiffeisen, Credins, BKT and Prokredit). This testing period allowed CBS to improve and enrich AGIS with new features, based on the banks' recommendations. Just a year after the launch of AGIS, CBS is now exploring to extend AGIS' model for other sectors – a promising development.

Results at a glance	
Numbers of loans financed through AGIS:	32
Amount (in Euro) financed through AGIS:	1,207,278
Amount (in Euro) invested due to the loans:	1,364,662
Employment (estimated) created due to the loans:	71
Estimated increase in sales due to loans:	2,047,064
Estimated increase in profits due to loans:	307,060

“The updated information at national level for the entire range of agricultural and livestock products is very valuable for Credins Bank staff who deals with the analysis of cases that need to be funded.” Mr. Gjovalin Lala, Director of micro and agro sales of CREDINS Bank

5. Lessons Learnt

- Piloting an intervention is key: Before rolling out AGIS, CBS went through an intensive testing phase with several banks. This allowed CBS to fine-tune AGIS, ensuring the software could really fulfill its key objective.
- Scale also means depth: While the financial sector in Albania is limited, with only a dozen key financial institutions, AGIS' outreach in terms of users will never be vast. Instead, the behavioral change among the existing financial institutions, namely lending more money to agro-processors, is the true hallmark of success for this intervention.

AGIS OVERVIEW

AGIS (the Agricultural Intelligence & Information System) is a web-based platform (www.agis.al) that provides statistical and other relevant information related to agricultural and food industry. Conceived as a Business Intelligence Technology, AGIS is useful to Financial Institutions in the identification of agricultural sector potentials, preparation of financial analyses, risk assessment as well as the development of dedicated agro-loan products suiting agricultural activities specifics. The interactive feature support different banking reporting needs and lending operations, as well as boost banks confidence in their credit decisions making. While being an innovation in the local Digital Market, AGIS is intended to support many institutional professionals engaged in macro research on Agricultural Sectors as well as preparation of business plans and other sector related strategic documents and studies.

Its features include:

- Comprehensive statistical information on over 75 farm level agricultural and food products.
- Official data on agro-processing industry including statistics on agro-processors by activity type, regions, employment in the industry and production levels for over 170 products.
- Import and export trading statistics for more than 100 agricultural and agro-processing products.
- Production Cycle for 24 Agricultural Products and detailed calendar of activities from pre-production to harvest & trading, including production costs and future cash flows.
- A comprehensive outlook of official statistics and data trends on business lending activity from the Albanian banking sector.
- General information on Agro Value-chain, EU-28 Benchmarks, Alternative Financing, Real Estate Market Reference Prices and Agribusinesses Licensing Requirements.

RisiAlbania was established in 2013 to address the problem of youth unemployment in Albania. The project was established by the Swiss Agency for Development and Cooperation (SDC) and is implemented by a consortium of partners consisting of HELVETAS Swiss Intercooperation and Partners Albania. The 4 year project has two main pillars. The first focuses on job creation through growth in specific sectors (tourism, agriculture and ICT) and the second focuses on improved labour market information and intermediation services.

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