

# Competitive Fruit and Vegetable Products in Albania

## IN FOCUS



FINANCE,  
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1818 H Street NW  
Washington, DC 20433  
Telephone: 202-473-1000  
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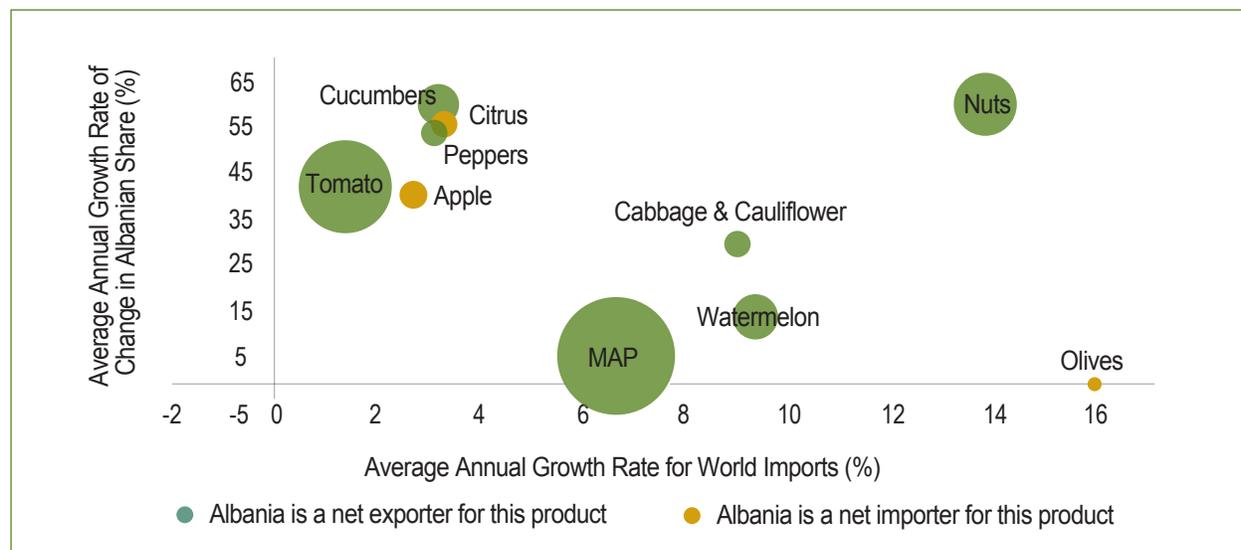




## Abstract

Albania is heavily dependent on its agricultural sector, which accounts for 20.3 percent of GDP, 49 percent of employment and 8.5 percent of total exports. The fruit and vegetable sector represents 20 percent of Albanian agriculture, but contributes 36 percent of its exports and this share is expected to increase. As the domestic market for many of these products is saturated, Albanian fruits and vegetables have been gaining ground in the Western Balkans and are well positioned to make headway in the EU-28 market as well. However, Albanian producers face many constraints in meeting the rigid and complex demands of the EU market, constraints that an export strategy focused solely on identifying products for export is unlikely to change. The policy paradigm has shifted to approaches that focus on integrating local industries into global value chains that help facilitate technology transfer and create jobs.

**Figure 1. Average Annual Growth Rate for World Imports (%)**





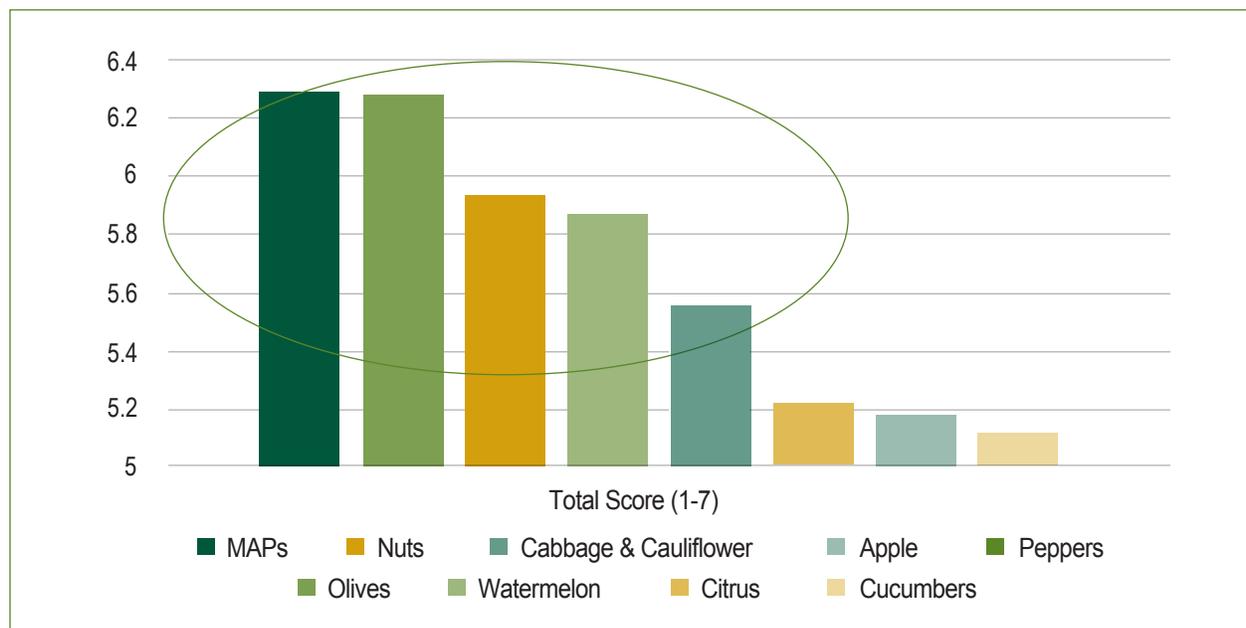


## Identifying the Frontrunners

Using value chain analysis and triage methodologies, the IFC Albania Agriculture Competitiveness and Investment Climate project (Project) identified a list of fifteen Albanian fruit and vegetable products with latent competitive advantage. Using a Bethesda matrix to rank exports according to their rate of market growth and origin country market share, the project narrowed the list down to five products: medicinal and aromatic plants (MAPs), olives, watermelon, nuts, and cabbage and cauliflower.

A further competitiveness analysis identified MAPs and olives as the most promising exports due to their booming markets—spurred by demand not only from food producers but from producers of high value-added phytopharma products and cosmetics—followed by nuts, watermelon, and cabbage and cauliflower, flanked by other products that Albania exports successfully but that have reached market saturation. MAPs were eliminated following a workshop with stakeholders; the analysis focuses on the next three most competitive goods, olives, nuts, and watermelon (Selected Products).

Figure 2.



## Binding Constraints

The Project found that the Selected Product's value chains in Albania are significantly less competitive than in their immediate competitors, who, in turn, are much less competitive than the same sectors in the EU. Albania's inability to compete is due to two binding constraints: (i) excessive land fragmentation and producers' inability to achieve necessary economies of scale; and (ii) an unskilled workforce and low-technology production process that leads to gross inefficiencies throughout the production process. Furthermore, Albania's quality certification processes are insufficient for export to the EU-28, as well as usually too costly for smallholders.

**Access to land.** The intrinsic problem holding back Albania's fruits and vegetable value chain is the scarcity of arable land. Production of Selected Products is diffused across many small farms. Consolidators face non-uniform product quality, low yields and high levels of waste. They also bear the certification and logistics costs of each individual farm. By the time Albanian exporters reach their target market, they have incurred higher costs than their competitors in both production and transportation. Albanian land policy is a major constraint to consolidating arable land and, further, is an untenable risk for those looking to make the

### Constraints to Albanian integration into fruit and vegetable Global Value Chains:

- Land fragmentation
- Antiquated farming technologies and production practices
- Lack of export infrastructure, including certification services and knowledge of destination markets
- Lack of access to credit

long-term large investments into nut and olive plantations.

**Low workforce productivity and lack of knowhow.** Competing in the EU market requires a higher level of sophistication than that currently offered by Albanian companies in the three value chains. Most smallholder farms are not mechanized, do not use up-to-date agricultural practices and lack access to credit to invest in improvements. Albania support infrastructure, such as quality certification and marketing and sales capacity. This translates into low-value added products and lack of bargaining power for Albanian exporters. In such situations FDI can be a driver of knowledge transfer; unfortunately, Albania's regulatory environment is unattractive for FDI.

## Olives

Olive oil is currently a USD 7 billion export market globally that is growing at an average of 8.6% per year. Albania is the production leader in the Western Balkans, but its production currently stands at 0.6% of EU-28 oil production (the market leader) and is unable to meet domestic demand. In an effort to become globally competitive in olive oil, the government subsidized the planting of nine million trees from 2009 to 2015. However, this significantly increased production base is not expected to reach its full productive potential because farming practices in Albania remain inefficient, increasing the cost of maintaining olive orchards and reducing their yield.

According to a 2012 analysis of Albania's olive sector by the European Commission (EC Analysis),<sup>1</sup> due to the extreme fragmentation of its olive orchards (average orchard size of 0.2-0.4 hectares, compared to an average size of 1.6 hectares in Greece), Albania cannot produce in sufficient volumes to be a significant player in the EU-28 market. With inefficient production and inability to benefit from economies of scale, Albania will continue to produce small volumes of olive oil at a relatively

<sup>1</sup> European Commission, Directorate General for Agricultural Development. "Economic Analysis of the Olive Sector". 2012. [https://ec.europa.eu/agriculture/olive-oil/economic-analysis\\_en.pdf](https://ec.europa.eu/agriculture/olive-oil/economic-analysis_en.pdf)

**Figure 3. Average Cost of Olive Oil (EURO)**



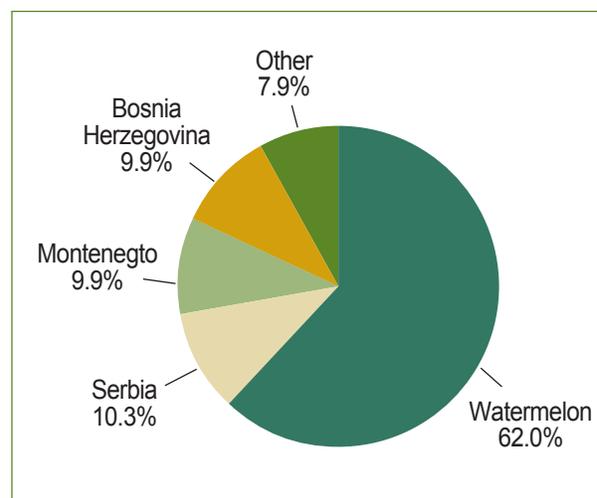
high price. A focus on the high-end organic olive oil market, which favors quality over volume, would be recommended, but noted that, while around two-thirds of Albania’s olive orchards are believed to be organic, only about 1% of orchards, or 515 hectares, are certified as such. Further, Albanian producers face regulatory and certification constraints and a lack of both agronomic knowledge and knowledge of the EU market for high-end foods.

### Watermelon

Watermelon is one of Albania’s strongest-performing fruit and vegetable exports, but its export reach is limited almost entirely to other countries in the Western Balkans (with Kosovo receiving the lion’s share, 62% of total exports). Watermelon has a short shelf life and its production is labor-intensive and sensitive to weather conditions, so Albania’s low wages, favorable climate and location make it a great candidate to supply the booming EU-28 watermelon market. Furthermore, Albania is geographically well-suited to producing early-season watermelon, which sells at a premium.

While shipping costs for Albanian watermelons are lower than for Albania’s direct competitors, inefficient logistics and production practices ensure that Albania’s product loses out against the market leader, Greece, in quantity and quality produced. EU fruit and vegetable value chains are dominated by big retailers that expect high quality with 24-hour

**Figure 4. Main Export Destinations for Albanian Watermelon, 2015**



Production/Productivity Indicators	ALBANIA	GREECE (market leader)
Yield (mean tons per ha) (2015)	37.6	66.07 (2014)
Cost € per kg		
Seed	0.09	0.05
Seedless	0.17	0.06-0.07
Transportation cost € per kg	0.07 -0.1	0.07-0.08
Total production (tons)	216,000	582,000 (2014)

turnaround on orders. Albanian producers must close quality certification gaps, use more efficient production methods and grow in-demand varieties (such as seedless or mini fruit) in order to become competitive. Fortunately, watermelon is one of the easiest crops to package and certify. Upskilling the workforce and providing capital investment in order to grow more technology-intensive modern varieties may, however, prove difficult.

## Nuts

The global market for nuts is expected to expand at annual rate of more than 5 percent by value over the next 10 years. The Analysis identifies walnuts, hazelnuts, and chestnuts as potential high-value exports, but finds that becoming competitive in this value chain will require significant effort. Albanian nut production is dominated by smallholders lacking skills and resources; with the exception of chestnuts, production is insufficient even to meet domestic needs. However, nut production has been growing, mainly due to government-subsidized recent plantings that are now beginning to bear fruit. Albania's greatest challenge in these value chains is achieving volumes that are significant enough to compete in the global market. The main challenge is land fragmentation, which impedes technological improvements and economies of scale.

## Policy Recommendations to Support the Selected Products

- Establish a multi-stakeholder dialogue platform to improve and promote transparent

communication between public organizations and the private sector in order to begin resolving the land fragmentation issue.

- Launch supply chain management programs in Selected Product value chains and support the development of a network of quality service providers to assure high quality standards.
- Develop a productive workforce for the value chain by improving collaboration between industry and academic and vocational institutions and developing curricula with input from employers.
- Launch a pilot program to educate actors along the Selected Product value chains on the benefits of working together and supporting the development of new cultivars for higher-end export markets.

This policy brief summarizes the findings of Competitiveness Assessment of Fruits and Vegetable Value chains report, that is prepared by the IFC team and the MoARD, under the IFC Albania Agriculture Competitiveness and Investment Climate project (IFC P600476).

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## **Contact**

**Jieun Choi**, Senior Economist, FCI GP  
([jieunchoi@worldbank.org](mailto:jieunchoi@worldbank.org))

**Laureta Qorlazja**, IFC Country Officer, Albania

**Damien Shiels**, Practice Manager, FCI GP