

Gent Sejko: How to improve the quantitative and qualitative access of the agricultural sector to finance

Address by Mr Gent Sejko, Governor of the Bank of Albania, at the meeting with Banks and the Agribusiness, Tirana, 6 February 2025.

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Your Excellency Prime Minister,

Honourable Minister Denaj, Honourable Minister Malaj,

Dear representatives of the banking sector and interest groups,

First, allow me to welcome you to this roundtable discussion, which focuses on a crucial issue for the economic development of Albania: identifying the pathways and instruments to improve both the quantitative and qualitative access of the agricultural sector to finance.

The economic and social importance of this sector is evident in various statistics, but I will mention just a few. Agricultural sector employs about one-third of the country's labour force and generates around 20% of the national product. Yet, even after three decades of transition, it is characterized by a low productivity and income level. For example, the average income per capita in rural areas is approximately 50% of the average income per capital in urban areas.

The problems regarding development of agricultural sector are complex and – in most cases – are related to structural weaknesses in the production system and the supply chain that brings products to the market. However, it cannot be denied that one of the chronic problems this sector has faced and continues to encounter is its limited access to financing.

Hence, I am confident that this roundtable discussion is the right initiative at the right time.

Before addressing more specifically the issues surrounding lending to agricultural sector, allow me to consider it in a broader context.

Dear participants,

Despite the many challenges we have faced, the Albanian economy has performed positively over the course of past decade. In the past ten years, the volume of economic activity in real terms grew by 39%, while average income per capita increased by 58%. The Albanian economy, in nominal terms, has grown from an economy of around EUR 10 billion in 2014 to an economy of almost EUR 25 billion in 2024. This economic growth has yielded an increase in employment, wages and the well-being of the Albanian society. In addition, the main economic and financial soundness indicators of Albania: inflation, public debt, foreign debt, non-performing loans and banking sector's balance sheets, have been improving.

In this landscape of developments, the dynamism, flexibility and increasing sophistication of private sector have played a primary role. Also, the prudential monetary, fiscal and financial policies, as well as ongoing structural reforms have enabled a stimulating environment for bolstering consumption and investments. At the same time, the banking sector has developed into a reliable partner for Albanian households and businesses. Over the last decade, this sector has transformed to a buffer of shocks and a promoter of development from a generator and amplifier of shocks in the second decade of transition.

In particular, the structural reforms we have undertaken in close cooperation with the Albanian Government – where I find it appropriate to highlight the national plan for reducing non-performing loans, consolidating the banking sector, improving the supervisory and regulatory framework, as well as developing financial markets and payment instruments – have proven effective. These reforms have enabled the preservation of financial stability, the expansion in the range of banking services, the reduction of their costs, and have led to a growth in lending to the Albanian economy. Focusing on the latter, I would like to emphasize that credit to the private sector reached a 16% growth rate in 2024. This rate implies an increase of around ALL 110 billion in the credit portfolio, representing the main flow of financial support for the economy.

However, these positive development trends are not uniform everywhere. In more concrete terms, the agricultural sector displays the weakest performance among the major sectors of the Albanian economy, caused by structural problems, such as land fragmentation; poor technological infrastructure; low horizontal and vertical integration between farmers, markets, and other sectors of the economy. In the same vain, credit to agriculture sector accounts for less than 2% of bank credit to businesses.

Dear representatives of the banking sector,

This progress, still falling short of the desires and needs that the agricultural sector has for credit, reflects both the reality of the risk associated with lending to this sector, due to the nature of the activity, its structural problems, the lack of collateral, and the high costs of lending. However, increasing your attention to its financing is a matter of strategic importance for the development of Albania. Studies conducted in this area have evidenced that lending to the agricultural sector has twice the impact on poverty reduction compared to lending to other sectors of the country.

In this context, I believe that the recent initiative of the Bank of Albania to approve and implement a Financing Program for micro, small, and medium-sized businesses offers an opportunity to open a new chapter in lending to agricultural sector.

This program responds to the concerns and demands of businesses, as well as our analyses, which show an uneven lending performance among businesses analysed by size. Although micro, small, and medium-sized businesses are the backbone of the Albanian economy, generating more than 80% of added value and employing nearly 80% of the workforce in the country, this sector is four times less creditworthy than large businesses and corporations. This phenomenon results from many factors, some of which we have tried to address through this program.

In these circumstances, the financing program for micro, small, and medium-sized businesses offers the opportunity for a qualitative boost in the development of these businesses in the short run. In addition it provides for addressing the structural issues that curb their access to credit in the medium term, and fosters partnership and mutual trust between them and the banking industry in the long term.

Taking advantage of this opportunity, allow me to emphasize that the Bank of Albania has made available a fund of All 25 billion to support the financing of micro, small, and medium-sized businesses. This program, which will be implemented through commercial banks, offers the possibility of significantly reducing the cost of credit for these businesses, which could reach up to 2%, but in any case, will not exceed the level of 3.5%, in turn enabling them to invest in physical assets, capital equipment, or technological platforms that serve to increase productivity. Also, I would like to clarify that our fund will be made available to commercial banks, which – through their selection process and at their own risk – will channel it into loans for businesses.

This exceptional measure by the Bank of Albania represents an important opportunity to boost lending to small and medium-sized businesses in general, and to those operating in the agricultural sector in particular. This initiative can be further supported by risk-sharing programs from the government, which I believe will be discussed further in this roundtable.

Dear participants,

Concluding, I kindly invite you to be as concrete and forward-thinking as possible in your discussions, so we can jointly build an agenda of measures that will provide, within a reasonable time, a concrete and long-term solution to this problem.

I would also like to call on the banking industry to pay greater attention to the development of financial products tailored for agriculture – products that take into account the agricultural production cycle and the seasonality of farmers' incomes, as well as to explore all the opportunities offered by our international financial partners, in terms of generating funds and building instruments in providing the support this sector deserves.

Thank You!