

**Development of Export Oriented
Value Chains in Albania**
*For Nuts Fruits (walnuts, chestnuts,
hazelnuts), Pomegranate and Non-Timber Forest Products
(mushrooms, berries and other forest fruits)*

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1. PROJECT DESCRIPTION

1.1. Rationale

1. Albania has a comparative advantage in production of Non-Timber Forest Products (NTFP) such as chestnuts, walnuts, hazelnuts, pomegranate, mushrooms, berries and other forest fruits. The climate and soil condition in Albania provide a very comparative advantage for production of the selected crops of walnut, hazelnuts, chestnuts, almond and pomegranate. Recent experience from rapid growth in the stone fruit sub-sector show that the Albanian farmers are keen and fast learners in adopting modern production technologies. At the same time cost of skilled and unskilled labour is very low providing a comparative advantage. Albania's proximity to EU and its process of accession to become an EU member also provide comparative advantages in terms of low transport cost and Preferential Tariff regime of zero duties for all Albanian produce imported into EU. Albania is member of WTO, and the Central European Free Trade Agreement (CEFTA). Albania is party to the Free Trade Agreements (FTA) with, EFTA parties, EU member countries and CEFTA member countries and Turkey.

2. The world market shows a very strong world demand growth and forecast support investment in both primary production and processing of various nuts crops (walnuts, chestnuts and hazelnuts) pomegranate and various berries and other types of forest fruit (non-timber forest production). If Albania further upgrades its comparative advantage, related to its appropriate climate, low cost of human capital, proximity to regional and EU markets, it will be possible to become a competitor on the export market, particularly within the region and the EU.

1.2. Project Target and Development Objectives

Project target. The project is proposed to target the following:

- (a) Geographical location, with investments mostly in the hilly and mountainous areas of the country where these crops find most suitable conditions;
- (b) Sub-sector of activity, with support provided in the following industry groups within which Albania has a potential comparative advantage such as: various nut fruits and non-timber forest products (NTFP)(e.g., chestnut, walnut, hazelnut, pomegranate, mushrooms and various forest berries/fruits);

1.3. Project Components

4. The project would include two components: (i) Value Chain Organization and Development Services, and; (ii) Value Chain Investment Financing.

1.3.1. Component 1 - Value Chain Organization and Development Services

5. This component would provide the means for planning and organisation for informed and efficient value chain development in the Project areas, involving private and public investment.

6. Most of the potential and actual activities within nuts fruits and NTFP sub-sectors are found in several more or less contiguous geographical localities in the Project area. It is vital that the stakeholders in each locality which hosts a project-supported sub-sector of economic activity are enabled and organised to take the lead in planning and in the implementation of both private and public investments.

7. To facilitate this, the project would be organised through the activity of sub-sector and locality-based groups/organizations, which are consistent with the EU LEADER approach. Facilitation teams (FTs) established within the each value chain would provide inter-active awareness raising, mentoring, animation and technical services to the entities within value chain.

8. These teams would also facilitate access for value chain actors to specialist project support in order to improve their skills and ability to conduct and/or participate in successful business ventures within the sub-sector value chains.

9. In addition, there would be specific support for the application of available new procedures in use of forestland, and for resolutions of land disputes, should these occur as a result of project supported investment. Services to enable preparation of business plans and financial management of the business entities owned by their members and access to study tours and in regional and international fairs as well as specialist marketing support would also be available.

1.3.2. Component 2 -Value Chain Investment Financing

10. This component would provide several financial instruments and associated capacity building for productive commercial investments at all levels of selected value chains. To complement financial resources mobilized by an existing SME or private investors, the project would provide two different financial instruments, namely equity financing, and co-financing. In addition, the project would also seek ways to promote access to clients to commercial credit from Banks and NBFIs.

11. Sub-Component 2.1: Rural Equity Facility (REF) would be extended to both existing SMEs and start-ups within the selected value chains. The REF would issue a call for proposals several times annually to identify possible investments in existing SMEs or by new investors within the project supported value chains. Preference is given to business proposals with strong backward linkages to smallholders/small producers and to business proposals originating from the project target population.

12. The REF would hold its equity participation for at least three years to ensure that sustainable and effective linkages, as well as trust and confidence, are built between investors and smallholders/small producers. Its shares would then be bought back by the owners of the SME, or new investors, through the use of a pre-agreed “put” option exercised by the REF. These funds obtained by the buy-back would then be used to re-finance other similar equity investments. The maximum amount of the equity investment would be USD 100 000, and the REF shareholding would not exceed 40% of the total company share capital.

13. Investor(s) from own resources or from borrowed funds would provide the balance of the financing required. The panel would also propose a set of indicators to measure the impact and performance of the investment. The financing agreement for the provision of equity would specify the equity percentage held by the REF, its seat on the company Board, inalienability of the REF shares for at least three years after financing, the mechanism for their re-purchase, the co-financing amount and the targeting indicators to be monitored. In addition, some SMEs would also be provided with technical assistance package to improve technical and managerial skills.

14. Sub-Component 2.1: Co-financing for Value Chain Investments. The provision of such co-financing has been highly successful under the other current projects/programmes in Albania. Moreover, it is standard practise within the Albanian system, and has been a major impetus to the development of sustainable rural investments elsewhere in the country. The risks of co-financing would be low, due mainly to the high level of client funds required to match the provided injection.

15. The amount of co-financing would range from a maximum of 30% of the total investment for existing SMEs, 50% for new SMEs, up to a maximum of 60% for projects with a majority of young people involved. The maximum co-financing amount would be USD 20000, but the majority would be less than USD 10 000.

1.3.3. Component 3–Project Management

16. This component would provide for the management of the project. A project management unit would be established composed of the key management and support staff. The PMU will work in close cooperation with the Ministry of Agriculture, Food and Consumer Protection and other responsible institutions, as designated by the ministry to get involved and contribute to the implementation of the project.

1.4. Project Implementation

17. The project would be implemented in close cooperation and partnership with the Ministry of Agriculture, Food and Consumer Protection and other institutions as designed by the Ministry.

18. The project in itself would be a demand driven value chain oriented intervention, following the experience gained from the previous and on-going project/programmes in Albania and the policies of the Government of Albania. The demand driven nature of the project would emanate from the development of community demand articulated through effective value chain organizations and Local Action Groups (LAGs). The VCO and LAGs themselves are based on the EU LEADER participatory approach to development, and would ensure that all sections of the targeted communities would have an effective means of communication and engagement. The formation of value chain organizations and local action groups would thus start in the first year of project and their capacity building and support continue during through the lifetime of the project.

19. The project is foreseen to be implemented over a period of five years.

2. PROJECT COSTS AND FINANCING

2.1. Estimated Project Costs

20. The estimated project costs have been derived based on data, information and experience from consultations and other donors funded projects, businesses as well as from Government institutions. Price and physical contingencies have not been included in this estimation. However, they would need to be included later during the estimation of the final detailed costs.

22. The total base cost for the investment and incremental recurrent project costs, excluding physical and price contingencies, is estimated at about USD 13.6 million. Table 1 below presents the project costs by components.

Table 1. Project Costs by Component

	Project Components	Total Amount	%
1	Value Chain Organization and Development Services	660.0	4.9
2	Value Chain Investment Financing	11,560.0	85.0
2	Project Management	1,383.7	10.2
	Total	13,603.7	100.0

2.2. Project Financing

22. On current estimates, a donor financing would covers about USD 8.4 million (or about 62% of the total project costs). The total amount of donor financing, 81% (USD 6.8 million) would be used to finance the Value Chain Investment Financing component, about 13% (USD 1.1 million) for the Project management and about 6.1% (USD 0.5 million) for the Value Chain Organization and Development Services. The Government of Albania contribution would be used to finance mainly taxes and duties and some other contributions, mainly as evaluated in-kind contribution from the public advisory services providing technical support at the local business community of the selected value chains. Approximately USD 2.7 million (20% of total project costs) would be provided by the primary beneficiaries (participating farmers and business entities in the project area), mainly as contributions to the financing of enterprise investment and small-scale infrastructure investment. A further USD 2 million, or 15% of project costs, is expected to be provided by banks and non-bank financial institutions as debt, co-financing investments with beneficiaries and the project. Table 2 below provides a summary by project components of the proposed financing arrangement.

Table 2: Financing Plan by Components (USD)

Project Components	Donor		The Government		Banks/NBMFIs		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1 Value Chain Organization and Development Services	512.0	6.1	148.0	33.7	-	-	-	-	660.0	4.9
2 Value Chain Investment Financing	6,800.0	80.9	-	-	2,040.0	100.0	2,720.0	100.0	11,560.0	85.0
2 Programme Management	1,092.3	13.0	291.4	66.3	-	-	-	-	1,383.7	10.2
Total PROJECT COSTS	8,404.3	61.8	439.4	3.2	2,040.0	15.0	2,720.0	20.0	13,603.7	100.0

3. ANNEXES: DETAILED ESTAMITES OF PROJECT COSTS

Albania
Development of Export Oriented Value Chains (DEOVC)
Table 1. Project estimated costs by financiers
(US\$ '000)

Project Components	Donor		The Government		Banks/NBMFIs		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1 Value Chain Organization and Development Services	512.0	6.1	148.0	33.7	-	-	-	-	660.0	4.9
2 Value Chain Investment Financing	6,800.0	80.9	-	-	2,040.0	100.0	2,720.0	100.0	11,560.0	85.0
2 Project Management	1,092.3	13.0	291.4	66.3	-	-	-	-	1,383.7	10.2
Total PROJECT COSTS	8,404.3	61.8	439.4	3.2	2,040.0	15.0	2,720.0	20.0	13,603.7	100.0

Albania
Development of Export Oriented Value Chains (DEOVC)
Table 2. Project estimated costs by Components and by Fiscal Year
(US\$ '000)

	Totals estimated cost					Total	%
	FY1	FY2	FY3	FY4	FY5		
1 Value Chain Organization and Development Services	152.0	152.0	132.0	127.0	97.0	660.0	4.9
2 Value Chain Investment Financing	1,372.0	3,468.0	3,468.0	2,312.0	940.0	11,560.0	85.0
2 Project Management	420.4	258.8	176.7	246.3	281.3	1,383.7	10.2
Total PROJECT COSTS	1,944.4	3,878.8	3,776.7	2,685.3	1,318.3	13,603.7	100.0

Albania
Development of Export Oriented Value Chains (DEOVC)
Table 3. Value Chain Organization and Development Services
Detailed Estimated Costs by Fiscal Year
(US\$)

	Unit	Quantities					Total	Unit Cost	Amount	Base Cost ('000)				
		FY1	FY2	FY3	FY4	FY5				FY1	FY2	FY3	FY4	FY5
I. Investment Costs														
A. Facilitation Teams (FTs) /a	pers-year	5	5	5	5	5	25	18,000	450.0	90.0	90.0	90.0	90.0	90.0
B. Study tours /b	tour	1	2	1	1	-	5	15,000	75.0	15.0	30.0	15.0	15.0	-
C. Trainings /c	session	20	15	10	5	5	55	1,000	55.0	20.0	15.0	10.0	5.0	5.0
D. TA - specialist consultant /d	lumpsum	5	3	3	3	-	14	5,000	70.0	25.0	15.0	15.0	15.0	-
E. Support on land tenure (local adviser)	pers-month	1	1	1	1	1	5	2,000	10.0	2.0	2.0	2.0	2.0	2.0
Total									660.0	152.0	152.0	132.0	127.0	97.0

↵a Four FTs, each one consisting of three specialists: a technical expert; a financial/business development expert; and an inclusiveness officer (female sociologist).
of which, at least half of the members of the facilitation teams will be composed of public advisory services

↵b 2 per VCO and LAG and during the whole programme.

↵c 1-week training in marketing, GGAP, HACCP, tourism services, primary production, crop husbandry, orchard/forest management, etc.

↵d TA in marketing, GGAP, HACCP, tourism services, primary production, crop husbandry, orchard/forest management, etc.

Albania
Development of Export Oriented Value Chains (DEOVC)
Table 4. Value Chain Organization and Development Services
Detailed Estimated Costs by Financier
(000 US\$)

	Donor		The Government		Banks/NBMFI's		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs										
A. Facilitation Teams (FTs) /a	315.0	61.5	135.0	91.2	-	-	-	-	450.0	68.2
B. Study tours /b	75.0	14.6	-	-	-	-	-	-	75.0	11.4
C. Trainings /c	44.0	8.6	11.0	7.4	-	-	-	-	55.0	8.3
D. TA - specialist consultant /d	70.0	13.7	-	-	-	-	-	-	70.0	10.6
E. Support on land tenure (local adviser)	8.0	1.6	2.0	1.4	-	-	-	-	10.0	1.5
Total	512.0	100.0	148.0	100.0	-	-	-	-	660.0	100.0

Albania
Development of Export Oriented Value Chains (DEOVC)
Table 5. Value Chain Investment Financing
Detailed Estimated Costs by Fiscal Year
(US\$)

	Unit	Quantities					Total	Unit Cost	Amount	Base Cost ('000)				
		FY1	FY2	FY3	FY4	FY5				FY1	FY2	FY3	FY4	FY5
I. Investment Costs														
A. Investment with equity financing														
1. Existing SMEs														
a. Equity financing	lumpsum							1,200.0	120.0	360.0	360.0	240.0	120.0	
b. Co-financing	lumpsum							2,600.0	520.0	780.0	780.0	520.0	-	
c. Beneficiaries' contributions	lumpsum							1,520.0	152.0	456.0	456.0	304.0	152.0	
d. Debt financing	lumpsum							1,140.0	-	342.0	342.0	228.0	228.0	
Subtotal								6,460.0	792.0	1,938.0	1,938.0	1,292.0	500.0	
2. Start-ups														
a. Equity financing	lumpsum							1,400.0	140.0	420.0	420.0	280.0	140.0	
b. Co-financing	lumpsum							1,600.0	320.0	480.0	480.0	320.0	-	
c. Beneficiaries' contributions	lumpsum							1,200.0	120.0	360.0	360.0	240.0	120.0	
d. Debt financing	lumpsum							900.0	-	270.0	270.0	180.0	180.0	
Subtotal								5,100.0	580.0	1,530.0	1,530.0	1,020.0	440.0	
Total								11,560.0	1,372.0	3,468.0	3,468.0	2,312.0	940.0	

Albania
Development of Export Oriented Value Chains (DEOVC)
Table 6. Value Chain Investment Financing
Detailed Estimated Costs by Financier
(000 US\$)

	Donor		The Government		Banks/NBMFIs		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs										
A. Investment with equity financing										
1. Existing SMEs										
a. Equity financing	1,200.0	31.6	-	-	-	-	-	-	1,200.0	18.6
b. Co-financing	2,600.0	68.4	-	-	-	-	-	-	2,600.0	40.2
c. Beneficiaries' contributions	-	-	-	-	-	-	1,520.0	100.0	1,520.0	23.5
d. Debt financing	-	-	-	-	1,140.0	100.0	-	-	1,140.0	17.6
Subtotal	3,800.0	100.0	-	-	1,140.0	100.0	1,520.0	100.0	6,460.0	100.0
2. Start-ups										
a. Equity financing	1,400.0	46.7	-	-	-	-	-	-	1,400.0	27.5
b. Co-financing	1,600.0	53.3	-	-	-	-	-	-	1,600.0	31.4
c. Beneficiaries' contributions	-	-	-	-	-	-	1,200.0	100.0	1,200.0	23.5
d. Debt financing	-	-	-	-	900.0	100.0	-	-	900.0	17.6
Subtotal	3,000.0	100.0	-	-	900.0	100.0	1,200.0	100.0	5,100.0	100.0
Total	6,800.0	200.0	-	-	2,040.0	200.0	2,720.0	200.0	11,560.0	200.0
in %	58.8		-		17.6		23.5		100.0	