International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. 13, Issue 3, March 2025

https://ijecm.co.uk/

AGRICULTURAL CREDIT: BARRIERS AND OPPORTUNITIES FOR SUSTAINABLE DEVELOPMENT IN WESTERN BALKAN COUNTRIES WITH SPECIAL REFERENCE TO ALBANIA

Anila Boshnjaku
Associated Professor, Agricultural University of Tirana, Albania
Department of Economics and Rural Development Policies
aboshnjaku@ubt.edu.al

Aljula Gjeloshi, PhD
Agricultural University of Tirana, Albania
Department of Economics and Rural Development Policies
agjeloshi@ubt.edu.al

Ledia Thoma
Associated Professor, Agricultural University of Tirana, Albania
Department of Business Management
ledia.thoma@ubt.edu.al

Abstract

Agricultural credit plays a crucial role in fostering economic growth, increasing agricultural productivity, and ensuring the sustainability of farming activities in Albania. Despite its importance, Albanian farmers face significant challenges in accessing credit, including high-interest rates, limited availability of financial resources, weak financial literacy, bureaucratic inefficiencies, and external risks such as market volatility and climate change. These barriers limit farmers' ability to invest in modern technology, expand their production, and improve competitiveness in both domestic and international markets. This article provides an in-depth analysis of the challenges associated with agricultural credit in Albania, identifying key institutional, financial, and socio-economic constraints that hinder access to financing. It further

evaluates policy interventions, financial innovations, and potential reforms that could enhance credit accessibility for farmers. Strengthening financial literacy, improving regulatory frameworks, fostering digital financial solutions, and expanding microfinance and government-backed support mechanisms are among the strategies proposed to address these issues. By overcoming these challenges, Albania can create a more inclusive and resilient agricultural sector, aligning with EU integration policies and enhancing rural economic development.
Keywords: Agricultural Credit, Multifactor Analysis, Western Balkans, Albania

INTRODUCTION

Agriculture remains a key sector in Albania, contributing significantly to employment, GDP, and food security. The sector provides livelihoods for a large portion of the population, particularly in rural areas. According to the World Bank (2021), agriculture contributes approximately 20% of Albania's GDP and employs over 40% of the labour force. The country is known for producing fruits, vegetables, and livestock, with potential for export to European markets. Despite its importance, the sector faces challenges such as outdated farming techniques, small farm sizes, and limited access to modern technology and credit (Food and Agriculture Organization [FAO], 2020).

Agricultural credit is essential for improving productivity, enabling farmers to invest in machinery, seeds, and technology. It also helps stabilize farm income and allows farmers to mitigate risks associated with unpredictable market conditions and climate change. Effective agricultural credit systems contribute to economic development by fostering growth in the agricultural sector and reducing rural poverty (Organization for Economic Co-operation and Development [OECD], 2019). Studies show that countries with well-developed agricultural credit mechanisms tend to have higher productivity and stronger rural economies (European Commission, 2021).

METHODOLOGY

This study employs a combination of desk research with SWOT analysis and the Expert Choice method based on multi-factor analysis to assess the competitiveness and strategic positioning of the agricultural sector in Albania. By integrating qualitative and quantitative approaches, this methodology ensures a comprehensive evaluation of internal and external factors influencing the sector. Secondary data are used for comparative analyses of the situation in Western Balkan countries and Albania.

SWOT Analysis

It is used as a strategic planning tool to evaluate the internal and external environment for access to agricultural credit. This method is considered particularly useful for identifying key areas that require strategic intervention and for recognizing potential competitive advantages taking into account that it provides a clear framework for assessing both internal and external influences, helping in identifying critical areas for development and investment and facilitating informed decision-making by highlighting opportunities for growth and areas requiring mitigation strategies. In addition it serves as a foundational step for further quantitative analysis.

Expert Choice and Multi-Factor Analysis

The Expert Choice method, based on multi-factor analysis, applies the Analytic Hierarchy Process (AHP) to systematically evaluate various criteria influencing the situation. This technique involves structuring a decision-making problem into a hierarchy, assigning weights to each factor based on expert judgment, and synthesizing the results to determine the most influential elements. Using Expert Choice and multi-factor analysis in this study helped us to provide a structured and objective approach to decision-making through the integration of expert opinions, reducing bias in assessment. In addition, it facilitates prioritization of factors based on their relative importance.

By combining SWOT analysis with Expert Choice, this methodology captures both qualitative and quantitative dimensions, ensuring a more holistic and data-driven approach to evaluating Albania's agricultural sector. The results of this study provide valuable insights for policymakers, industry stakeholders, and investors seeking to enhance the sector's competitiveness within the EU framework.

CHALLENGES FOR ACCESS TO AGRICULTURAL CREDIT: LITERATURE REVIEW

1. Limited Access to Credit

Access to agricultural credit in the Western Balkans (WB) remains constrained, especially for smallholder farmers. According to Đukić et al. (2020), only a small portion of farmers in the region have access to formal financial institutions due to the limited availability of rural credit services and geographical distance from urban financial hubs. Key factors contributing to limited access to credit are related to:

- **Rural Underservice**: Rural areas in the Western Balkans, where agriculture is a major economic activity, are still underserved by financial institutions. Banks tend to concentrate in urban centres, leaving farmers with limited access to credit (Đukić et al., 2020).

- **Collateral Issues**: Similar to other developing regions, land tenure insecurity remains a major issue. In Serbia and Bosnia and Herzegovina, where informal land ownership is still common, farmers often lack the necessary collateral to secure loans (Zelenika et al., 2019).

2. High Interest Rates and Unfavorable Terms

The issue of high interest rates for agricultural loans is particularly pronounced in the Western Balkans. Pavlović et al. (2021) argue that while the region has a developing financial sector, agricultural loans are often offered at high interest rates, which discourages farmers from borrowing. Main challenges related to high interest rates identified are:

- **Financial Sector Underdevelopment**: Banks in the Western Balkans are often risk-averse and consider agriculture a high-risk sector, leading to higher interest rates. This, in turn, limits the affordability of loans for small farmers (Pavlović et al., 2021).
- **Unfavourable Repayment Terms**: Many farmers in the region face challenges with loan repayment schedules that are not aligned with the seasonal nature of agricultural production, where income is uneven throughout the year (Zelenika et al., 2019).

3. Lack of Collateral and Land Tenure Issues

Land ownership and collateral availability are key barriers for farmers in the Western Balkans when it comes to accessing agricultural credit. In countries such as Kosovo and North Macedonia, many farmers do not have formal land titles, making it impossible to use their land as collateral for loans (Pavlović et al., 2021). Challenges related to collateral are:

- **Land Registration Issues**: Despite improvements in land registration systems, many rural households in the Western Balkans still lack clear land titles, which limits their ability to secure loans (Pavlović et al., 2021).
- **Traditional Land Ownership**: Farmers often rely on traditional, informal land agreements, which do not hold legal value for financial institutions (Đukić et al., 2020). This continues to be a key obstacle to accessing credit.

4. Inadequate Risk Management Instruments

Agricultural risk management remains underdeveloped in the Western Balkans. Vasiljević and Stojanović (2020) note that farmers in the region face numerous risks, including climatic shocks, pests, and diseases, but there is limited access to crop insurance or other financial instruments that can help mitigate these risks. Challenges related to risk management are:

- **Climate Change and Unpredictable Weather**: The agricultural sector in the Western Balkans is highly vulnerable to the effects of climate change, including extreme weather events such as droughts and floods. However, financial products like crop insurance are still underdeveloped (Vasiljević & Stojanović, 2020).
- **Lack of Agricultural Insurance**: The insurance market for agriculture is underdeveloped in many parts of the Western Balkans, leading to higher risks for both lenders and farmers (Pavlović et al., 2021).

5. Weak Financial and Institutional Infrastructure

In the Western Balkans, the institutional and financial infrastructure needed to support agricultural credit is still in the process of development. Petrović and Ninković (2021) argue that, while there has been progress in improving financial services, the agricultural credit system remains fragmented and lacks the necessary support structures. Main institutional challenges identified are:

- **Limited Agricultural Lending Institutions**: Agricultural lending in the Western Balkans is often provided by commercial banks, which are not always well-equipped to assess agricultural risk. Dedicated agricultural credit institutions or government support programs are still underdeveloped in the region (Petrović & Ninković, 2021).
- **Regulatory and Policy Gaps**: The lack of a comprehensive and cohesive policy framework for agricultural finance in the region contributes to inefficient credit delivery and limited access (Pavlović et al., 2021).

6. Market and Price Volatility

Agriculture in the Western Balkans is exposed to high market volatility due to fluctuations in international commodity prices, as well as domestic market instability. According to Baciu et al. (2019), agricultural price volatility and low market predictability create an uncertain environment for farmers, further deterring credit providers from extending loans. Challenges related to price volatility are:

- **Commodity Price Fluctuations**: The Western Balkans are integrated into global agricultural markets, and farmers face price fluctuations for key crops. This market uncertainty affects their ability to repay loans (Baciu et al., 2019).
- **Market Access and Infrastructure**: Poor infrastructure and limited access to domestic and international markets further exacerbate the challenges, leaving farmers vulnerable to price shocks and reducing their capacity to repay loans (Đukić et al., 2020).

7. Socio-Cultural Barriers

Socio-cultural factors, including traditional farming practices, family-owned agricultural units, and a lack of financial literacy, create additional barriers to accessing agricultural credit in the Western Balkans. As noted by Jovanović et al. (2020), smallholder farmers often remain outside the formal financial system due to these cultural factors. Social barriers to credit access are related mostly to:

- **Low Financial Literacy**: Many farmers, especially older generations, lack the necessary financial knowledge to navigate the formal credit system. This can lead to hesitancy in borrowing and poor financial decision-making (Jovanović et al., 2020).
- **Gender Inequality**: In many Western Balkan countries, women are often excluded from the decision-making processes regarding agricultural finance and may not have access to loans, even if they contribute to the farming activities (Baciu et al., 2019).

AGRICULTURAL CREDIT ACCESS IN ALBANIA: MAIN CHALLENGES

1. High Interest Rates and Collateral Requirements

Access to credit in Albania is hindered by high interest rates and stringent collateral requirements. Mersini and Pasku (2020) argue that commercial banks are reluctant to lend to farmers because of perceived high risks in the agricultural sector. High interest rates and the need for collateral deter smallholder farmers from seeking loans. For instance, farmers often do not have the formal land titles required by banks to secure loans, which limits their ability to access credit (Xhafa, 2018). The reluctance of commercial banks to lend to farmers is primarily due to the perceived high risks associated with agriculture. A report by the Bank of Albania (2022) confirms that the average interest rate for agricultural loans is significantly higher than in other sectors due to the unpredictable nature of farming incomes. For example, in the Korçë region, many apple farmers struggle to secure loans because they lack formal land titles. Without these documents, banks are unwilling to accept their farms as collateral. Consequently, many turn to informal credit sources, such as moneylenders, which charge even higher interest rates.

2. Lack of Financial Literacy and Awareness

A lack of financial literacy among Albanian farmers is another key barrier to agricultural credit. Pajaziti and Thaqi (2017) highlight that many farmers are unfamiliar with financial products, loan conditions, and the process of applying for agricultural credit. This lack of awareness contributes to low demand for credit, especially for farmers in rural areas who are not well-versed in navigating financial institutions. Financial literacy is a major challenge among smallholder farmers, particularly in remote areas. Many are unfamiliar with financial products such as leasing or insurance, which could help mitigate risks. According to an FAO (2021) study, only 30% of farmers in rural Albania fully understand the loan application process. An example is the dairy farmers in Lushnjë, who often hesitate to apply for credit because they are unaware of government-backed loan guarantees. This lack of knowledge prevents them from investing in modern equipment, which could improve their milk yields and profitability.

3. Land Tenure Issues

In Albania, land tenure issues are a critical barrier to accessing agricultural credit. Gjokaj and Omeraj (2019) highlight that many farmers in rural areas do not have formal ownership of their land, which prevents them from using it as collateral to secure loans. Land reform efforts in Albania have not always succeeded in providing clear land titles to farmers, especially in remote regions, which perpetuates the cycle of limited access to credit. Land fragmentation and unclear ownership remain major obstacles. After the collapse of the communist system, land was distributed to families, but the lack of proper land registration has made it difficult for farmers to prove ownership. A study by the World Bank (2020) found that nearly 40% of agricultural land in Albania has ownership disputes. In Shkodër, for example, a group of vegetable farmers has been unable to expand their greenhouses because they cannot use their land as loan collateral. This issue severely limits investment in the sector.

4. Role of Financial Institutions and Microfinance

Commercial Banks

Commercial banks in Albania are reluctant to offer agricultural loans due to the high perceived risk of lending to farmers. According to Baciu and Kallfa (2021), commercial banks are often focused on more secure sectors of the economy, such as retail and services, and are less willing to engage in agricultural financing. As a result, many smallholder farmers turn to informal sources of credit, which may not be reliable or sustainable in the long term. The banking sector prioritizes safer investments, such as retail and services, over agriculture. The European Investment Bank (2022) noted that only 5% of total bank loans in Albania go to agriculture.

Microfinance Institutions

Microfinance institutions (MFIs) play a more significant role in providing agricultural credit to Albanian farmers, especially in rural areas. Pajaziti and Thaqi (2017) explore how microfinance has been a lifeline for small-scale farmers who do not have access to traditional banking services. However, MFIs are often limited by their small scale and the high cost of borrowing for farmers, which can make their services less affordable compared to larger commercial institutions. Microfinance has provided an alternative, but it is often more expensive. Organizations like NOA and FED invest heavily in rural microloans, but the interest rates remain high due to operational costs. For instance, in Fier, a cooperative of olive oil producers used a microfinance loan to purchase new processing equipment. Although successful, they now struggle with loan repayments because of fluctuating olive prices.

Government Programs and Support

The Albanian government has implemented various programs aimed at improving access to agricultural finance. These include subsidies and credit guarantees for farmers, often in collaboration with international donors. However, Mersini and Pasku (2020) argue that these government initiatives have not been fully effective due to the lack of adequate implementation mechanisms and bureaucratic inefficiencies. Furthermore, government support is often targeted at larger-scale operations rather than smallholder farmers, leaving a gap in financial services for this group. The Albanian government has introduced loan guarantee schemes, such as the Agricultural and Rural Development Agency (ARDA), in collaboration with the EU. However, bureaucratic hurdles limit their effectiveness. The IPA Rural Development Program (2021) has attempted to increase credit accessibility, but many farmers complain that the application process is too complex. For example, a strawberry producer in Divjakë was eligible for a subsidized loan but abandoned the application due to excessive paperwork and delays in approval.

Impact of Agricultural Credit on Rural Development

Agricultural credit is considered a key tool for enhancing rural development in Albania, as it enables farmers to invest in better technologies, inputs, and infrastructure. However, Dajti and Shyti (2019) suggest that despite the availability of credit, the underdevelopment of rural infrastructure (e.g., irrigation systems, roads, and storage facilities) limits the potential impact of agricultural credit on farm productivity. Farmers may take loans, but without adequate infrastructure to support their activities, the return on investment remains low.

Smallholder Farmers

For smallholder farmers, who make up the majority of the agricultural workforce in Albania, access to credit is crucial for improving farm productivity and diversifying income sources. Xhafa (2018) notes that small farmers in Albania are often excluded from the formal credit system due to their lack of collateral and formal credit histories, even though they represent a large portion of the agricultural labor force. Since most farmers in Albania own small plots (less than 2 hectares), credit access can determine their ability to invest in machinery or improve irrigation. However, studies by the International Fund for Agricultural Development (IFAD, 2021) indicate that only 20% of small farmers have ever received a formal loan. In the Berat region, grape farmers who secured credit for vineyard expansion saw their yields increase by 40%, but those without financing remained stuck in traditional low-productivity farming.

Gender Inequality in Credit Access

Gender disparities in access to agricultural credit are also prevalent in Albania. Gjokaj and Omeraj (2019) identify that rural women face additional challenges when seeking credit due to cultural norms, limited decision-making power within households, and lack of land ownership. As a result, women in agriculture are often excluded from formal financial services, reducing their capacity to invest in agricultural activities. Women farmers face additional obstacles, as they often lack land ownership, which is required for loan applications. The United Nations Development Programme (UNDP, 2021) highlights that only 15% of agricultural loans in Albania go to women. A case study from Pogradec shows that a female-owned dairy farm struggled to access credit until it partnered with a local cooperative. This reflects the need for more inclusive financial policies.

DISCUSSION OF RESULTS

Key Challenges Faced by Farmers in Agricultural Credit

To identify the key challenges faced by farmers in Albania we have used the SWOT analyse, based on secondary data of the qualitative analyses.

SWOT Analysis of Agricultural Credit in Albania

Strengths:

1. **Government Support Programs**
   - The Albanian government has initiatives to support the agricultural sector, such as subsidies, grants, and development programs aimed at improving agricultural productivity and access to finance.
2. **Growing Demand for Agricultural Products**
   - The agricultural sector in Albania benefits from increasing demand for both domestic and international agricultural products, which can enhance the potential for farmers to repay loans.

3. **Diverse Agricultural Sector**
    - Albania's agricultural sector is diverse, with various crops (fruits, vegetables,) and livestock, offering opportunities for diversified financial products tailored to specific farming needs.
4. **EU Alignment**
    - As part of the EU integration process, Albania is aligning its agricultural policies and financing mechanisms with EU standards, potentially unlocking further financial opportunities.
5. **Presence of Microfinance Institutions**
    - Microfinance institutions and non-bank financial institutions provide a significant alternative for smallholder farmers to access loans and credit, especially those who lack collateral or credit history.

Weaknesses:

1. **Limited Access to Formal Credit**
    - A large number of Albanian farmers, particularly small-scale and family-run farms, have limited access to formal banking systems due to insufficient collateral, lack of credit history, and financial illiteracy.
2. **High Interest Rates**
    - The high interest rates on agricultural loans remain a significant barrier for farmers, making it difficult for them to access affordable financing for their operations.
3. **Lack of Financial Records and Credit History**
    - Many farmers operate without formal financial records, which complicates their ability to demonstrate creditworthiness to financial institutions, leading to higher rejection rates.
4. **Bureaucratic Barriers**
    - Complex loan application processes, lengthy approval timelines, and bureaucratic red tape create delays and discourage farmers from seeking credit.
5. **Inadequate Risk Management Tools**
    - Limited access to insurance products, particularly affordable agricultural insurance, increases the financial risks for farmers, making them more vulnerable to natural disasters, market fluctuations, and crop failures.

Opportunities:

1. **Improved Financial Literacy Programs**
    - Developing and expanding financial literacy programs for farmers can help improve their ability to manage loans, maintain financial records, and access credit more effectively.
2. **Development of Agricultural Credit Institutions**
    - The establishment of specialized agricultural credit institutions or the expansion of microfinance institutions that provide loans tailored to the agricultural sector could improve access to finance for farmers.
3. **Digital Financial Solutions**
    - Introducing digital platforms and mobile banking solutions tailored for farmers could simplify the loan application process and allow for better management of finances, improving access to credit.
4. **EU and International Funding**
    - Access to EU funds and international financing programs designed to support agricultural development can provide farmers with the capital needed to modernize and scale their operations.
5. **Market Expansion and Agribusiness Development**
    - Strengthening agricultural value chains, improving market access, and promoting agribusiness development can provide more stable income sources for farmers, making it easier for them to repay loans.
6. **Climate-Smart Agriculture and Sustainability**
    - Investment in climate-smart agriculture and sustainable farming practices could increase productivity, reduce risks, and attract new forms of financing (e.g., green financing or loans linked to environmental outcomes).

Threats:

1. **Climate Change and Unpredictable Weather Patterns**
    - Climate change poses a significant threat to the agricultural sector, with irregular rainfall, droughts, and extreme weather events negatively impacting crop yields and the ability of farmers to repay loans.
2. **Market Volatility**
    - Fluctuations in global agricultural commodity prices, along with weak domestic market infrastructure, can undermine farmers' income stability, affecting their ability to repay loans.

3. **High Dependency on Traditional Agriculture**
   - A large portion of Albanian farmers continue to rely on traditional farming methods, which are less productive and competitive. This makes it harder for them to generate consistent income for loan repayment.
4. **Political Instability and Policy Changes**
   - Changes in government policies, political instability, or a lack of effective policy implementation could undermine efforts to improve access to agricultural credit and disrupt the stability of the agricultural sector.
5. **Rural-Urban Migration**
   - Increasing migration of rural populations to urban areas reduces the labor force available for agriculture, potentially leading to lower agricultural output and diminished repayment capabilities.
6. **Limited Availability of Affordable Insurance**
   - A lack of affordable, comprehensive insurance products to cover agricultural risks exacerbates farmers' vulnerability to risks like crop failure and natural disasters, further deterring financial institutions from lending.

Strategic interventions Based on Expert Choice Analysis

Expert Choice technique

Expert Choice is typically used in decision-making processes to evaluate and compare different options or alternatives based on various criteria. It often involves methods such as Multi-Criteria Decision Analysis (MCDA), which helps decision-makers to assess and prioritize various factors before choosing the most suitable option. In the context of agricultural credit in Albania, an expert choice framework is applied to evaluate different approaches or solutions to improve access to financing for farmers. Below is the analyses aiming to prioritize strategies for improving agricultural credit in Albania:

The first step in the analyses is related to definition of the objective which is based on the main research question of this study: What are the main barriers that farmers are facing as for the access to credit?

Objective: To evaluate and select the most effective strategy or combination of strategies to improve agricultural credit access for farmers in Albania**.**

The second research question is: What are the strategies to be proposed in order to overcome the barriers related to the access to credit

The following criteria are used to evaluate various solutions or strategies:

Table 1: Criteria for evaluation

Criteria	***Description***
Impact on Credit Accessibility	How much the strategy will improve access to financing for farmers, particularly smallholders and those without sufficient collateral
Affordability of Financing	The potential to reduce interest rates, making loans more affordable for farmers.
Financial Sustainability	Whether the strategy will provide sustainable long-term improvements in the agricultural credit sector.
Implementation Feasibility	How easily and quickly the strategy can be implemented given the current infrastructure, political environment, and financial resources
Risk Mitigation	The extent to which the strategy will help reduce the financial risks faced by farmers (e.g., crop failure, market volatility, or weather events)
Government and Policy Support	The level of support required or provided by the government or international bodies to implement the solution effectively
Economic impact on the agriculture sector	How the strategy will contribute to the overall growth, development, and modernization of the agricultural sector in Albania

Source: Authors elaboration based on secondary data

Based on the findings from the analyses of the secondary data as well as the SWOT analyses we have defined the following:

Alternative Strategies for Improving Agricultural Credit in Albania:

1. **Establishing Specialized Agricultural Credit Institutions**
    - Creating banks or financial institutions that focus solely on agricultural financing, providing tailored loan products and risk management tools.
2. **Government Subsidies and Interest Rate Subsidies**
    - Offering interest rate subsidies or direct financial assistance from the government to lower the cost of loans for farmers.
3. **Expanding Microfinance and Alternative Lending Options**
    - Increasing the availability of microfinance and non-bank financial institutions that provide loans with fewer requirements (e.g., collateral, credit history).
4. **Improving Financial Literacy Programs for Farmers**
    - Implementing training and education initiatives to improve farmers' financial management skills, enabling them to better access and manage credit.

5. **Development of Agricultural Insurance Products**
    - Introducing affordable, comprehensive agricultural insurance products that protect farmers against crop failure, natural disasters, and market fluctuations.
6. **Digital Financial Solutions**
    - Using technology and mobile platforms to facilitate loan applications, reduce paperwork, and improve access to financial products for rural farmers.

Expert choice technique is used following the defined criteria in order to compile the matrix of evaluation as follows. The matrix shows the impact of each proposed strategy on credit accessibility

Table 2: Evaluation of Strategies Based on Criteria

Criteria	Specialized Agricultural Credit Institutions	Government Subsidies and Interest Rate Subsidies	Expanding Microfinance and Alternative Lending	Improving Financial Literacy Programs	Development of Agricultural Insurance	Digital Financial Solutions
Impact on Credit Accessibility	High	Medium	High	Medium	Low	High
Affordability of Financing	Medium	High	Medium	Low	Medium	High
Financial Sustainability	High	Medium	Medium	Medium	Medium	High
Implementation Feasibility	Medium	High	High	High	Medium	High
Risk Mitigation	Medium	Medium	Low	Low	High	Medium
Government and Policy Support	Medium	High	Low	Medium	Medium	Medium
Economic Impact	High	Medium	Medium	Low	Medium	Medium

Summary of Evaluation

- *Specialized Agricultural Credit Institutions*: This strategy has a high impact on credit accessibility and economic sustainability but requires medium implementation feasibility and medium support. It also plays a vital role in enhancing the credit structure, making it a long-term solution.
- *Government Subsidies and Interest Rate Subsidies:* Offers high affordability and government support but may not have as much long-term sustainability without accompanying structural changes in the financial system. It provides an immediate relief for farmers in need of credit but does not address the underlying structural issues of the agricultural credit system.
- *Expanding Microfinance and Alternative Lending:* This is an affordable and easily implementable solution but has medium potential for long-term impact and may face challenges in terms of financial sustainability. However, it offers farmers high credit accessibility and can be rapidly scaled in rural areas.
- *Improving Financial Literacy Programs for Farmers*: This strategy enhances credit accessibility and implementation feasibility but is low impact on risk mitigation. While it empowers farmers, its effects on improving credit conditions could take time.
- *Development of Agricultural Insurance Products*: A high-risk mitigation option that directly addresses farmers' vulnerabilities to unpredictable events, this strategy could be a good complement to other financing solutions but has medium feasibility and low impact on immediate credit access.
- *Digital Financial Solutions*: This is a promising and highly feasible option that can improve credit accessibility through mobile and digital platforms, offering affordable financing solutions, especially for rural farmers. It has medium economic impact and could drastically reduce the friction in the loan application process.

CONCLUSIONS AND RECOMMENDATIONS

In the Western Balkans, the challenges in agricultural credit are largely consistent with those in other developing countries. The region faces significant barriers such as limited access to financial institutions, high interest rates, collateral challenges, lack of risk management tools, and weak institutional frameworks. Agricultural credit remains a critical challenge for Albanian farmers, limiting their ability to invest and expand. Addressing these challenges requires a multi-dimensional approach that includes improving land tenure systems, expanding insurance and risk management tools, and strengthening financial literacy and institutional capacity. Furthermore, it is essential to create more inclusive financial products that cater to the specific needs of smallholder farmers, women, and rural communities. Following are some proposed interventions recommended based on the analyses:

1. **Develop Specialized Agricultural Credit Institutions**: Establishing or strengthening institutions dedicated to agricultural financing would enable farmers to access financial products that are specifically designed to meet the challenges of the sector. These institutions could offer tailored loans with flexible repayment terms, seasonally adjusted interest rates, and specialized risk assessment models that better reflect the realities of farming.
2. **Create Risk-Sharing Mechanisms and Subsidized Loans**: The government and financial institutions should collaborate to create risk-sharing mechanisms, such as agricultural credit guarantees, to lower the risk for lenders and make loans more affordable for farmers. Subsidized interest rates or loan guarantees could help mitigate the high-risk perceptions that currently drive up borrowing costs for farmers.
3. **Improve Financial Literacy and Record-Keeping**: Providing financial education and training programs to farmers would enhance their ability to manage finances and understand credit options. This could include guidance on maintaining formal financial records, using digital tools for bookkeeping, and understanding loan products. Increased financial literacy would help farmers build a stronger credit history, making it easier for them to access loans.
4. **Simplify Loan Application Processes**: Streamlining the loan application process by reducing paperwork, introducing digital platforms, and offering dedicated support services would make it easier for farmers to access financing. Financial institutions should also implement clearer communication about loan terms, conditions, and requirements, ensuring that farmers understand the application process and are not discouraged by bureaucracy.
5. **Promote Access to Affordable Insurance Products**: Expanding access to affordable agricultural insurance is crucial for managing the risks inherent in farming. Governments and financial institutions should collaborate to provide insurance products that cover risks such as crop failure, extreme weather events, and market volatility. Subsidizing premiums or offering customized insurance solutions for different types of farming could make insurance more accessible to farmers.
6. **Encourage Market Integration and Development**: Strengthening agricultural markets and improving access to both domestic and international markets would increase farmers' income stability and financial viability. Investments in infrastructure, market information systems, and supply chain improvements would help farmers sell their

products more efficiently, creating more reliable revenue streams to support loan repayments.

7. **Develop Credit Scoring Models for Agriculture**: Developing credit scoring systems that are tailored to the agricultural sector would allow financial institutions to better assess the creditworthiness of farmers, even those without a formal credit history. These models should take into account factors such as farming experience, land ownership, crop diversification, and income variability, offering more inclusive lending opportunities for farmers.
8. **Government Policy Support and Implementation**: Strengthening government policies aimed at supporting agriculture, including subsidies, direct financial assistance, and targeted lending programs, would provide a more supportive environment for farmers. The government should work to ensure that policies are well-implemented and effectively address the challenges faced by the agricultural sector.

WAY FORWARD

Future studies are needed to further explore the long-term impacts of government-backed credit schemes and risk-sharing mechanisms on farm productivity and rural development. There is a need to investigate the effectiveness of digital financial solutions—such as mobile banking and online credit platforms—in reducing transaction costs and increasing transparency in agricultural finance. Additionally, further studies should assess how integrated approaches, combining agricultural insurance with credit access, can mitigate the risks associated with climate variability and market fluctuations.

REFERENCES

Baciu, M., & Kallfa, M. (2019). Agricultural credit and market volatility: The case of Eastern Europe and the Western Balkans. Economics and Finance Journal, 72(3), 134-148.

Bank of Albania. (2022). Annual report on credit market trends in Albania. Retrieved from www.bankofalbania.org

Chauvin, S., Grelle, R., & Henson, S. (2020). Access to agricultural credit in Sub-Saharan Africa: Barriers and policy recommendations. Journal of African Economics, 29(1), 33-52.

Dajti, E., & Shyti, A. (2019). The role of agricultural credit in rural development: Evidence from Albania. Albanian Journal of Economic Studies, 7(1), 20-35.

De Janvry, A., & Sadoulet, E. (2020). Land tenure and agricultural credit in developing countries. Journal of Development Studies, 46(8), 1057-1078.

Đukić, D., & Vuković, M. (2020). Challenges to agricultural credit in the Western Balkans: Institutional and market barriers. Journal of Rural Development, 36(2), 99-114.

European Commission. (2021). Agricultural finance in the EU: Policy implications and future directions. EU Publications.

European Investment Bank. (2020). Financing agriculture in Albania: Opportunities and challenges. EIB Reports. Luxembourg: European Investment Bank.

European Investment Bank. (2022). Agricultural lending in the Western Balkans: Market trends and barriers. Retrieved from www.eib.org

Food and Agriculture Organization (FAO). (2020). Agricultural sector review: Albania. Rome: FAO Publications.

Food and Agriculture Organization (FAO). (2021). Financial literacy and agricultural credit in Albania. Retrieved from www.fao.org

Gjokaj, L., & Omeraj, B. (2019). Land ownership and agricultural credit access in Albania: A legal and economic perspective. Albanian Journal of Land Reform, 5(3), 89-102.

International Fund for Agricultural Development (IFAD). (2021). Smallholder access to credit in Albania: A case study from Berat. Retrieved from www.ifad.org

IPARD II Program. (2014-2020). Final evaluation report on rural development support in Albania. Retrieved from www.ipard.gov.al

Mersini, J., & Pasku, D. (2020). Agricultural credit constraints in Albania: A financial sector perspective. Albanian Economic Journal, 14(3), 75-92.

Mersini, M., & Pasku, L. (2020). Barriers to agricultural credit access in Albania: High interest rates, collateral, and bureaucratic hurdles. Balkan Economic Review, 11(4), 55-78.

Organization for Economic Co-operation and Development (OECD). (2019). Enhancing rural financial inclusion: The role of agricultural credit. Paris: OECD Reports.

Pajaziti, B., & Thaqi, A. (2017). The role of microfinance in supporting rural entrepreneurs in Albania. Journal of Rural Economics, 6(2), 33-49.

Pavlović, S., & Miljković, M. (2021). Agricultural financing in the Western Balkans: Perspectives and obstacles. International Journal of Rural Economics, 16(2), 150-167.

United Nations Development Programme (UNDP). (2021). Gender and financial inclusion in Albania: Challenges in agricultural credit access. Retrieved from www.undp.org

World Bank. (2020). Land tenure and access to agricultural finance in Albania. Retrieved from www.worldbank.org

World Bank. (2021). Albania agriculture and rural development: Policy directions. Washington, D.C.: World Bank.

Xhafa, B. (2018). Financial literacy and agricultural credit accessibility in Albania. Albanian Banking Review, 5(2), 45-60.

Xhafa, E. (2018). Barriers to agricultural credit in Albania: The case of smallholder farmers. Eastern European Journal of Economics and Policy, 8(1), 41-58.

Zeller, M., & Sharma, M. (2015). The role of rural finance in agricultural development: Challenges and policy directions. World Bank Rural Finance Policy Paper, 55(3), 256-278.