

# Moving Albanian agriculture forward-an effective and inclusive policy agenda matters

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**ABSTRACT**— This paper deals with the need of a new agenda for agricultural (and rural development) in Albania. Through findings from the literature on various aspects, including policy options and instruments for agricultural development and poverty reduction, it aims to raise the awareness of policymakers in Albania about both the arsenal of possible development policy options and the urgent need for an inclusive policy agenda for the agricultural sector of Albania. The new agenda calls for a clear vision of agricultural development, an effective roadmap, the adoption of a comprehensive approach to the drafting process, and the political commitment of policymakers to an inclusive development strategy through effective consultation with farmers and agricultural development actors in drafting the policy agenda. The climate for private investment must be the foundation of the new agenda. The best functioning of markets should be the "panacea" of sound agricultural development. Improving transparency in the drafting and execution of the public budget for agriculture, including subsidies, is vital in terms of its efficiency and achieving policy objectives, and meeting the policy targets. Implementing performance-based budgeting would have positive effects in this regard. Establishing institutional capacities for management, monitoring, absorption, and impact assessment, is a prerequisite to further increase the agricultural budget in the future, and to ensure efficient use of all resources.

**KEYWORDS:** agricultural development; agricultural policy; inclusive policy

## 1. INTRODUCTION

Agriculture is an important branch of the Albanian economy. It contributes about 18% of GDP and about 40% of national employment. In Kosovo agriculture contributes about 8%, in North Macedonia and Montenegro 7%, and in Serbia 6%. Albanian farms are small, with an average size of 1.2 ha. About 75% of Albanian farms have an average size of 0.5 ha. Only about 35% of farmers receive extension services and less than 1% of farmers have received bank credits. Only 2% of Albanian farmers work together in various forms of cooperation. In the period 2005-2018, the public budget for agriculture in relation to GDP accounted for only 0.33% on average [22].

### 1.1 Research problem

There have always been plans and strategies (in the context of rural development) for the development of agriculture in Albania. But they have not achieved fast, significant, sustainable, and effective development of the agricultural sector, and sometimes they failed in achieving policy targets [20]. The reason is simple: these plans have not been sufficiently inclusive, and because of public policy bias against agriculture. The last strategy for agricultural and rural development 2021-2027 presents an improved policy framework but yet not able to guarantee what is needed.

A new agenda for agricultural development cannot be designed or implemented without being aware of the great need of the agricultural sector for political support, which cannot be achieved without political will, knowledge, and capacity to build an adequate institutional framework to effectively implement the new political agenda.

The question of who should do, what and how is fundamental to building an effective development agenda. The guarantee for a new political agenda and its effective implementation is the use of international experiences for agricultural development and the effective involvement of all actors in the agricultural knowledge and information system, starting with farmers and continuing with agribusiness, university professors, and knowledgeable people wherever they are, without any political disregard.

### ***1.2 Research goal***

We want to argue that a new agenda should be a joint product of many people, actors, institutions, and organizations that have an interest in agriculture, wishing to join their efforts and work together in a systematic and coherent way for the production of this agenda. In the context of this agenda, Albania needs to structurally transform its economy and agricultural sector, increase productivity and agricultural production, ensure sustainable development, improve life and reduce poverty not only in the rural space but also in urban areas. All of these present, in fact, tough challenges.

To manage these challenges in the framework of its new and comprehensive agenda for agricultural and rural development Albania needs to adjust its priorities and dedicate sufficient and adequate financial, institutional, and technical support. At the core of the agenda should be concrete priorities and objectives, accompanied by effective and efficient policies.

What we essentially intend is to promote and highlight the imperative need for a new, all-inclusive, and effective agenda for agricultural (and rural) development in Albania.

### ***1.3 Specific objectives***

We have three specific objectives:

First, with this paper we aim, to raise awareness for a new political agenda for agricultural and rural development in Albania by bringing the issue closer to the attention of political and policy institutions, development stakeholders and the interested audience about how, when, and who can do what by collaborating together for the rapid development of Albanian agriculture. On the other side, bringing foreign experiences and suggestions of authors with international recognition and prominent organizations that are involved in agricultural development can play a crucial facilitating and guiding role. In this context we want to show what, and how can potentially be done for the development of a new policy agenda for Albania.

Second, we want to highlight the crucial role of macroeconomics in agricultural development. To do this we again refer to the literature.

Third, indicate major aspects of an inclusive and effective policy agenda for agricultural development.

## **2. METHOD**

The method we use to carry out the study is a desk study of the corresponding literature. We bring evidence, highlights, and indications on various aspects of agricultural policies and policy instruments that can be effectively used for the agricultural development of Albania, based on experiences, literature, and policy recommendations from internationally renowned scholars and prestigious institutions, such as the WB, FAO,

and OECD, which need to carefully be analyzed and implemented in an innovative way in the conditions of Albania.

### **3. KEY CONCEPTS**

#### ***3.1 Policy***

Although there is no single definition, the policy is the goals and methods used by the government to influence the level of economic variables such as prices, revenues, exchange rates, and so on. The generic term "policy" generally refers to state intervention in the economy, while "policies" indicate specific types of state intervention in the economy [4]. According to the Cambridge Dictionary, a policy is a set of ideas or a plan of what will be done in specific situations that have been formally agreed upon by a group of people, a business organization, a government, or a political party. Policies are permanent until a new political regime enters into force [15].

#### ***3.2 Strategy***

The Strategy is the vision for the development of the sector or its specific subsectors and the roadmap to achieve the vision [15]. A successful strategy builds upon national economic, social, climatic, and environmental strengths and advantages.

#### ***3.3 Policy program***

The policy programs are directly managed activities, interacting with farmers, institutions, or other market agents, with or without public investment. Programs typically use the government's current account, e.g., current public staff usually without the need for additional staff. Political programs are limited in time and resources. They end as soon as the resources made available to them run out [15].

#### ***3.4 Policy instrument***

The policy instrument is an individual economic tool that can be used to manipulate an economic variable in order to achieve an economic objective. Instruments are, for example, interest rates, tax rates, subsidies, prices and minimum wages, and legislation (ref. Economicsonline.co.uk). So instruments are the methods or tools used for a policy to achieve its objectives. Instruments should be selected based on an analysis of their advantages and disadvantages, restrictions on the use of one or the other, and side effects of each instrument [4].

#### ***3.5 Project***

According to the Cambridge Dictionary, a project is a piece of planned work or an activity that ends over a period of time and aims to achieve a specific goal. Like programs, projects are limited in time but usually involve significant investment and require a lot of staff.

#### ***3.6 Economic efficiency***

Economic efficiency is the allocation of resources in such a way that it would be impossible to improve one individual (group, agent) without worsening another. This is also called Pareto efficiency. Otherwise, it is the ratio of the actual value of a variable to its potential value. Economic efficiency assumes minimum costs for the production of a good or service, maximum production, and maximum surplus through and from the functioning of the market.

#### ***3.7 Perfect market or perfect competition***

A competitive market is one where there are numerous producers competing with each other in the hope of

providing the goods and services that consumers want and need. In other words, no single producer can dictate the market. Also, like producers, no consumer can dictate the market. According to the Cambridge Dictionary, a market is called perfect where sellers of a product or service are free to compete directly, and sellers and buyers have complete information.

Frank Ellis makes a clear description of the perfect market or perfect competition. According to him, perfect competition is based on the neutrality of the price mechanism and its role as an arbiter of all economic decisions. No producer or consumer is able to influence price levels with individual actions. There is accurate and cheap information on market prices. There is freedom of entry and exit in every branch of activity, and, indeed, competition ensures that inefficient producers are forced out of production while only the most efficient can survive. In the model of perfect competition, there can be no obligation, possession, or exercise of economic power by some economic agents over others [5].

### ***3.8 Market failure***

Is the inability of free-market forces to achieve certain economic objectives or to solve certain economic problems or, in a broader sense, also social, climatic, and environmental objective.

### ***3.9 Government failure***

Is the inability of the government to achieve certain objectives or to solve certain economic problems or, in a broader sense, also social and environmental goals.

Frank Ellis describes with deep realism the signs of state failure in developing countries. They are the inefficiency of institutions, mismanagement, bad governance practices, overstaffing, nepotism, bribery, corruption, the pursuit of personal gain of politicians and officials, etc. A country with these characteristics he calls "predatory" or "parasite".

According to Ellis, there are three explanations for this situation: the lack of a capitalist caste, government officials pursuing private interests, the state operating on the basis of a system of personal loyalty, client-boss relations, nepotism, and compulsion to do things [4].

## **4. BASIC ASPECTS OF AN INCLUSIVE AND EFFECTIVE AGRICULTURAL POLICY**

State intervention in the economy is necessary to correct market failures and to achieve objectives that have nothing to do with efficiency as an objective, or to address those situations that we call market failures. Some of the market failures are lack of competition, presence of externalities and incomplete property rights, presence of public goods and shared resources, as well as asymmetric or incomplete information [2].

In many countries, mainly developing ones, agriculture is still the main tool for sustainable development and poverty reduction. Producing high-value products, starting new businesses, and working in the rural non-agricultural economy are ways of reducing poverty. Evidence shows that growth originating in agriculture is 2 times more effective in reducing poverty than growth originating in other sectors [30].

Agriculture offers opportunities for growth, poverty reduction, and environmental services but this requires the state to provide key public goods, improve the business climate, and regulate natural resource management [30].

The role of the state in dealing with market failures can be enhanced by improving the supply or delivery of basic public goods, improving the business climate, improving natural resource management, strengthening

government capacity, and partnering with the private sector and civil society.

The state is responsible for effective policies, otherwise policies may fail to achieve their objectives. The effectiveness of the policy has three dimensions: commitment, coordination and cooperation. If the state institutions that are in charge of drafting and implementing policies do not perform these three functions well, then the policies will not be effective, that is, they will fail [31].

Due to the importance of agriculture, agricultural policies are already separated, as everywhere in Albania too, from the general corpus of the economic policy.

In the final analysis, agricultural policies are an expression of government intervention and its role in the economy. Under Wagner's law, the state's participation in the economy and the role of politics tends to increase as further economic growth progresses. This law has also been tested empirically by studying the relationship between per capita income over the years and the percentage of government spending relative to GDP [10].

Agriculture as a factor of development is underused. The reallocation of agricultural work to sectors outside it is delayed, leading to very poor rural areas and large rural-urban income gaps [30].

Agricultural development can occur with policies appropriate to country conditions, with political support, and by improving agricultural governance [30].

The New Conventional Wisdom (NCW) as well instructs that resource allocation should be done according to market mechanisms, to avoid price distortions resulting from government interventions in agriculture, which lead to inefficiency and penalize growth. However, short-term distortions can be tolerated in the name of increasing long-term productivity and correcting market failures [6].

Economic growth requires increased productivity. Increasing productivity, but also the profitability and sustainability of agriculture of small farmers is the way to reducing poverty. This requires improving price incentives, increasing the quantity and quality of public investment, better-functioning markets for agricultural products and inputs, better access to financial services, reducing unsecured risks, improving the performance of organizations of manufacturers, and promoting of innovation [30].

As the World Bank and FAO point out, private investment is essential for agriculture to contribute effectively to economic development, poverty reduction, and food security. But for this to be achieved the investment climate is essential. According to FAO, the basic elements for a good investment climate that the government must ensure are good governance, rule of law, political stability, fighting corruption, and ease of doing business. Recognizing and effectively managing the specific investment barriers faced by farmers has improving effects on the investment climate. Some of the main obstacles have to do with access to land, markets for inputs and agricultural products, credit, risk insurance as well as access to and application of agricultural technologies.

Income inequality is another phenomenon that can be addressed through agricultural policies, through an inclusive approach in several ways, such as the high-value products, decentralization of non-agricultural economy in rural areas, and assistance to the poor [30].

Following recommendations of prestigious international institutions, countries should draw up an agenda for agricultural development. The agriculture agenda for development requires a policy framework built in

cooperation with stakeholders, as well as effective governance and implementation capacity. The development agenda must be comprehensive, differentiated, sustainable, and financially and administratively viable, as well as able to yield significant impacts. Implementing the agricultural development agenda has two challenges: overcoming policy bias, underinvestment, and disinvestment; strengthening governance for the implementation of policies.

The creation of jobs in agriculture and the non-agricultural rural sector should be a political priority. Essential to this is a good business climate, as well as peace and a suitable macroeconomic environment [30].

In the absence of economies of scale, market-oriented and labor-intensive agriculture, and efficient labor markets are key instruments in reducing poverty.

Effective instruments for agricultural development are increasing household access to land, water, and human capital. Secured property rights, access to irrigation, and quality education are basic requirements for agricultural development and poverty reduction.

Agricultural policies have the mission of increasing rural incomes, but to carry out this mission they must not only be effective in the conditions of the current structures but also be able to facilitate the transition to other structures that enable further growth of the income. This means that they must be able to increase the productivity and competitiveness of small farms and expand employment opportunities outside the agricultural sector [19].

An agricultural policy will be sound if it provides real benefits (it is economically sustainable), it reduces poverty (it is socially sustainable), it gives fiscal results (it is fiscally sustainable) and it does not harm the environment, so it is sustainable also from an environmental point of view [15].

In the context of good governance, for agricultural policies to be effective they must meet certain criteria. First, discipline (policies to be consistent); realism (applicable policies); stability (policy setbacks should be rare and the vision for development should be clear); openness and clarity (policies to be transparent to the public); selective (ability to choose the best policies); effective communication, as a policy that is not well understood cannot be implemented and may not even be well reflected in the budget [32].

For an agricultural policy to be successful it must take into account and effectively confront the objectives it seeks to achieve by also taking into account existing sector constraints. This would help select the most appropriate policy instruments to achieve the set goals [2].

Key elements of the agricultural policy are good land policies, effective transfer of sound technologies, and establishment of effective institutions for rural credit [15].

In countries where small farms predominate, their market share is a major challenge. Increasing farmers' access to the market needs adequate and sufficient market infrastructure, increased farmers' technical capacities, use of risk management tools, as well as collective action through producer organizations [30].

Experience has shown that often policy reforms are made by addressing single issues separately. But each particular policy has implications for other sectors or reforms, so reforms can be more effective if they are conceived and implemented jointly as part of a sector package or strategy [15].

According to the World Bank, the evolution of agricultural policies has taken place in several stages. In the 1960s, policies focused on fertilizer and seed subsidies, R&D investments, and advisory services. In the 1970s, agricultural development was treated in the context of integrated rural development policies. In the 1980s and 1990s, the agricultural development approach was based on structural adjustment policies. At the beginning of our century, the development approach is more agricultural investments but also the use of subsidies of the type "market smart" for seeds and chemical fertilizers (targeted subsidies, limited in time, and operating through the private market) as well as investments in R&D and extension [30].

According to the OECD, experience shows that different countries have applied a policy mix that can be grouped into several options or approaches [17]: i-price support through border measures and other policies to transfer revenue from consumers to producers not only has been but continues to be a feature of agricultural policies in many countries; ii-subsidies for inputs and capital to reduce costs; iii-concessional loans to stimulate investment; iv-policies to mitigate income risks v-direct payments to farmers, including environmental protection conditions; vi-policies to improve the business environment.

In addition to these, features of the policy and its agenda have been and are the support of innovation systems to increase productivity and sustainability in the long run, as well as policies to mitigate the effects of climate. Poor people who depend heavily on agriculture are more sensitive to climate change.

An effective agricultural administration is important in meeting the agricultural development agenda. Ministries of agriculture need new skills and new structures to perform new roles. Internal reforms as well as adjusting the payroll structure and recruitment system are essential. A mission-oriented and results-oriented public service is important but requires vision and leadership to be able to design and implement [30].

Strengthening civil society and democracy, the so-called third sector (communities, producer organizations, actors' organizations, NGOs) has a role to play in improving governance because they improve the representation of the poor, give political voice to small farmers and make responsible by participating in policy-making, monitoring, budgeting, and policy implementation. Capturing elites often occurs in agrarian societies, so development institutions need to address this problem as well [15].

It should be noted that policy-making generally takes into account producers, consumers, and taxpayers, but it must also effectively consider other agents with interests, such as farm input suppliers, traders, food processors, retailers, environmentalists, and their groups. These agents often have the potential to link up in political coalitions and can strongly influence agricultural policy-making [25].

In the framework of policy-making, the budgeting process is of particular importance. Participatory budgeting is a strategy that could help both in the better engagement of the public in the making of the budget as well as in increasing its transparency [18]. In the effectiveness and transparency of the budget, performance-based budgeting would also help; it connects the purpose and objectives of the expenditures with the costs of the programs, with the activities, outputs or services that must be produced for each development program [26], [32].

One of the agricultural policy instruments used in many countries of the world, and for which there is great debate in the international literature, are subsidies in the form of direct payments to farmers. Given that there is currently a large debate in Albania, politically motivated and often passionate, about the amount and role of subsidies in Albanian agriculture, we aim to raise some awareness of politics and show not only the positive sides but also the dark sides of subsidies, their effects, conditions, and constraints they face to be effective and

efficient. Direct support to Albanian farms has been increasing, but it is still minor if we compare it with the direct support that countries around us provide to farmers [14]. The World Bank calls for a strong institutional framework to guarantee efficient distribution and use of subsidies [29].

Agricultural extension is also a very important policy instrument, which also is at the center of the debate. According to the literature, public extension is blamed for weak effectiveness. The most criticized aspects are irrelevance, insufficient impact and effectiveness, inefficiency and problems with the equality of farmers in access [1]. But, according to FAO, public extension is not inefficient in itself, but because it lacks sufficient funds and because of unqualified specialists [6].

Thus, given that extension for agricultural development is an extremely important development tool, we aim to bring evidence of international approaches, findings, and experiences, emphasizing that Albanian politicians need to understand realistically and not only in theory the importance of agricultural extension, to provide better access and effective support to all farms, to small and very small farms in particular. FAO recommends using another concept instead of agricultural extension, the concept of RAS (Rural Advisory Services). According to this concept, the focus of extension cannot be only agriculture, but also marketing, environmental protection, poverty reduction, employment promotion, etc [28], [16].

According to the draft of the last agricultural and rural development strategy, extension enjoys some support but we want to argue that it is far from being sufficient to be able to play an effective role, and provide assistance to small and very small farmers [14].

A good agricultural strategy should also deal with the effects of devastating effects of globalization and climatic changes, focusing on policies to support small farmers to better adapt against these effects, for example helping farmers to effectively gain market power, reduce market risks, use climate-smart agricultural technologies and techniques, and stabilize their incomes. While, it is largely accepted that climate is changing in Albania too, the new strategy is not providing enough support to the issue of the adaptation to climate changes.

A good and effective agricultural strategy should include measures to help farmers face tough challenges of globalization. Because of globalization, input prices are rising and producer' prices become unstable, making at risk farm income stability. The new strategy does not include effective measures to protect farmers, the smaller ones in particular, against globalization effects.

The insufficient or slow development of agriculture in Albania is also related to the delays and poor performance of the process of solving the claims of the former owners. This has had great effects on the underdevelopment of the land market and the small size of the farm [21].

## **5. MACROECONOMIC ENVIRONMENT MATTERS**

Though it is noted that anti-agriculture bias in macroeconomic policies is being reduced, and that the political economy is shifting in favor of agriculture [30], often, policy uncertainty, macroeconomic instability, and taxes also have serious impacts on a good investment climate in agriculture [8].

The macroeconomic environment can affect the rate and structure of agricultural and urban-industrial growth. Job creation as well as revenue growth and distribution are as much a function of macroeconomic policies as targeted agricultural policies and projects. This is because macroeconomic policies have a strong impact on producer prices, factor prices, marketing margins, and, therefore, incentives for agricultural producers,

consumers, and marketing agents [16].

Because agriculture in developing countries is usually the largest sector in the economy, it usually provides the government with more revenue than it receives in return in the form of government programs. However, state budget allocations are important for the agricultural sector to develop.

Some of the key macroeconomic policies affecting the performance of the sector are taxation, government budget expenditures, borrowing, interest rates, wage rates, money supply, exchange rates, and public investment in infrastructure. These policies strongly influence the investment climate for agricultural development.

Reduction, exemption from taxes or their reduction (VAT, excises, property and profit taxes, etc.) for sectors, products, inputs, or activities designated by the government has a major impact on the provision of agricultural products or prices for farmers and consumers. Through the tax instrument, the government can stimulate certain industries, e.g. processing of agricultural products, in rural areas creating free economic zones for relatively long periods of time.

Many developing countries tax agriculture a lot but agricultural taxation is not recommended [30]. In the case of Albania a tax on land property, on unused land in particular, could help in improving the use of land and raising production, but it seems difficult to take place because it needs some consensus between different political wings.

Stabilization macroeconomic policies, such as controlling inflation and the budget deficit due to their impact on exchange rates and interest rates on bank loans, significantly condition the business climate and private investment in agriculture, exports, and imports of agricultural products and inputs.

Given the importance of macroeconomic policies, understanding the effects of macroeconomic variables on food and agriculture is important for designing short-term or long-term economically and politically sustainable policies. When macroeconomic policies such as fiscal or monetary policies create distortions such as overvalued exchange and interest rates, subsidies, agriculture is often discriminated against and thus long-term development prospects may be compromised.

Financial constraints are greater in the agricultural sector, due to the nature of the activity and the small size of the farm. Developing countries spend little on agriculture. Contracts in the rural sector have higher transaction costs and risks, due to the geographical distribution of production, lower population density, lower quality infrastructure, seasonality, and high covariance of rural productive activities.

In reference to Albania, as studies show, the macroeconomic system during transition is characterized by relative stability and equilibrium, because major variables, such as inflation and growth, bank deposit, and exchange rate have been only in relative medium to long-term equilibrium. Current and fiscal deficits and growth have not been in long-term equilibrium. Based on the co-integration analysis, the overall performance of the economy during the transition could be much better and so the performance of the public economic governance [24].

## **6. CONCLUSIONS**

This study aims at highlighting the need for a new model or new political agenda for agricultural and rural development in Albania and to raise awareness of policymakers in Albania in this regard. The objective of

this agenda should be to promote the restructuring of the economy and the agricultural sector, increase its productivity, improving living standards, reducing poverty in rural areas, and ensuring sustainable development through a pro-environmental approach.

The new agenda should build upon actual policy analysis and development weaknesses and failures. It requires a clear vision for agricultural development and an effective roadmap to achieving its objectives. Building and consolidating an investment climate to increase productivity and rural employment should be the cornerstone of this vision.

The strategies developed so far seem to have had serious shortcomings, as long as this problem has not been explicitly addressed, many objectives and set targets have not been achieved and we do not have public and transparent assessments of what has been done, who, when and how about agricultural and rural development strategies.

Rich and valuable international experiences and know-how in Albania guarantee the inclusion in the new agenda of policies and instruments suitable for achieving its objectives. What is required is only the political will of policymakers and their adoption of a comprehensive approach to the agenda-setting process. This would be the best approach despite the repair options and eclectic development policies coming from all wings of politics, which unfortunately do not imply a widely consulted and consolidated strategic framework.

As the World Economic Forum in Davos (Switzerland) advises, a good model or new development agenda ensures that key actors are engaged and aligned around common [33] priorities.

As evidenced by international experience and literature, effective consultation with farmers and agricultural development actors, improving transparency in the design and execution of the public budget for agriculture, including subsidies, is vital in terms of efficiency. Improving monitoring and especially the assessment of the impact of public investment and expenditure would effectively help better define public support priorities and increase their efficiency. Applying performance-based budgeting as recommended by the literature would have indisputable positive effects in this regard.

Establishing institutional management, monitoring, and impact-assessment capacities, as well as their evaluation if they are able to afford the absorption of more subsidies for agriculture, is not a condition, but a precondition, for their increase, otherwise the chances for higher efficiency of funds will be low. If the institutional capacities are weak, it is better that problem solving is not achieved through public subsidies but let the market solve the related problems.

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