



**CNVP**

Building a Greener Economic Environment

# **CNVP Medicinal and Aromatic Plants (MAPS)**

## **Market Systems Analysis, Strategy and Intervention plan**

**Niall Condon**

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## INTRODUCTION

This study is undertaken by CNVP foundation as part of implementation of LED project (Local Economic development) funded by Swedish Government through Swedish International Development Cooperation Agency, Sida.

Agriculture and food production play an important role in the Albanian economy. The sector generates about 20 percent of national GDP and is one of the main sources employment and income for rural households.

Albania is renowned for its biological and natural diversity, which supports a wide variety of plant and animal species, including medicinal and aromatic plants (MAPs). The harvesting and trading of MAPs has been an important source of income for rural communities in Albania for decades going back to communist times. An estimated 100,000 households, mainly in mountainous Northern regions, gain some income from MAPs. About 200 species of MAPs are actively traded, the most important have traditionally been sage, oregano, thyme, lavender and savoury.

This report aims to understand the issues impacting the development and growth of the MAPs sector in Albania, ultimately with the aim of identifying and designing interventions targeting key bottlenecks impeding change and transformation of the sector. The analysis is guided by the market systems development (MSD) approach which helps to understand how a system can work more efficiently and sustainably for poor and disadvantaged groups.

The report is presented in the following sections:

- Part 1 provides an overview of the MSD approach
- Part 2 is an MSD analysis of the MAPs sector in Albania, assessing the sector's performance and highlighting the key constraints impeding its growth and development
- Part 3 sets out CNVP's intervention strategy, outlining CNVP's overall vision of change and interventions which will be implemented to achieve this vision

# **PART I: Overview of Market Systems Development (MSD)**

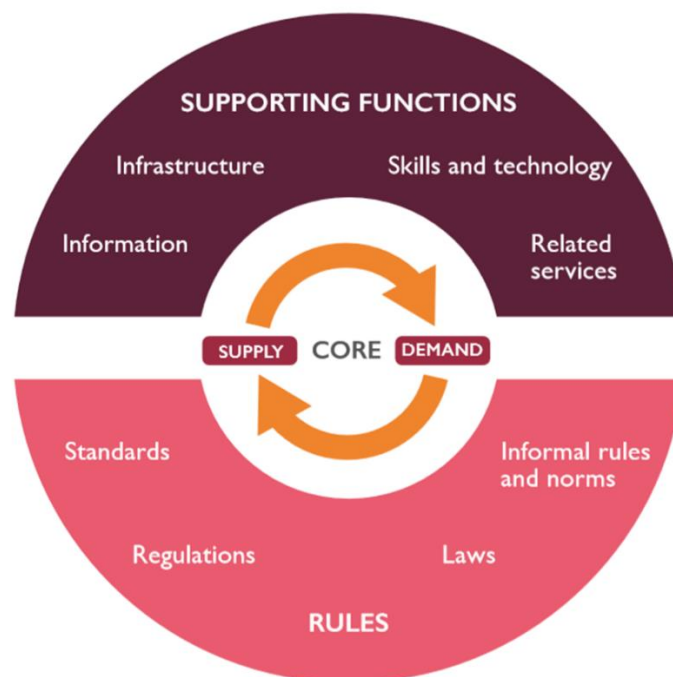
## What is Market Systems Development (MSD)?

Market Systems Development (MSD) is an approach to development that works through public and private actors to generate sustainable large-scale impact. It is analysis-led and does not prescribe or prohibit any particular instrument or tool of intervention. Instead, interventions are developed to respond to align with the capabilities and incentives of those public, private, and civil society actors, and adapted based on piloting and learning. Instead of focusing on what MSD programmes can ‘deliver’, emphasis is placed on how systems can work better to deliver impacts for disadvantaged people.

## What do we mean by a Market System?

A market system is a multi-function, multi-player arrangement comprising the *core function* of exchange by which goods and services are delivered and the *supporting functions and rules* which are performed and shaped by a variety of market players<sup>1</sup>.

Figure 1: The Market System



The market systems development approach or MSD recognises that improving the lives of the poor means transforming the functions and rules of the market systems which they rely on for access to the goods and services they need to improve their livelihoods.

## Why Market Systems?

The MSD approach emerged as a result of increasing pressure to improve the effectiveness of aid delivery and demonstrate impact, as a result of the limitations of conventional approaches which tried to improve development outcomes for disadvantaged groups by *directly* providing essential services to them; failing to recognise and address factors in the broader enabling environment (functions and rules) essential to stimulating long-term sustainable change. MSD aims to address this by ensuring:

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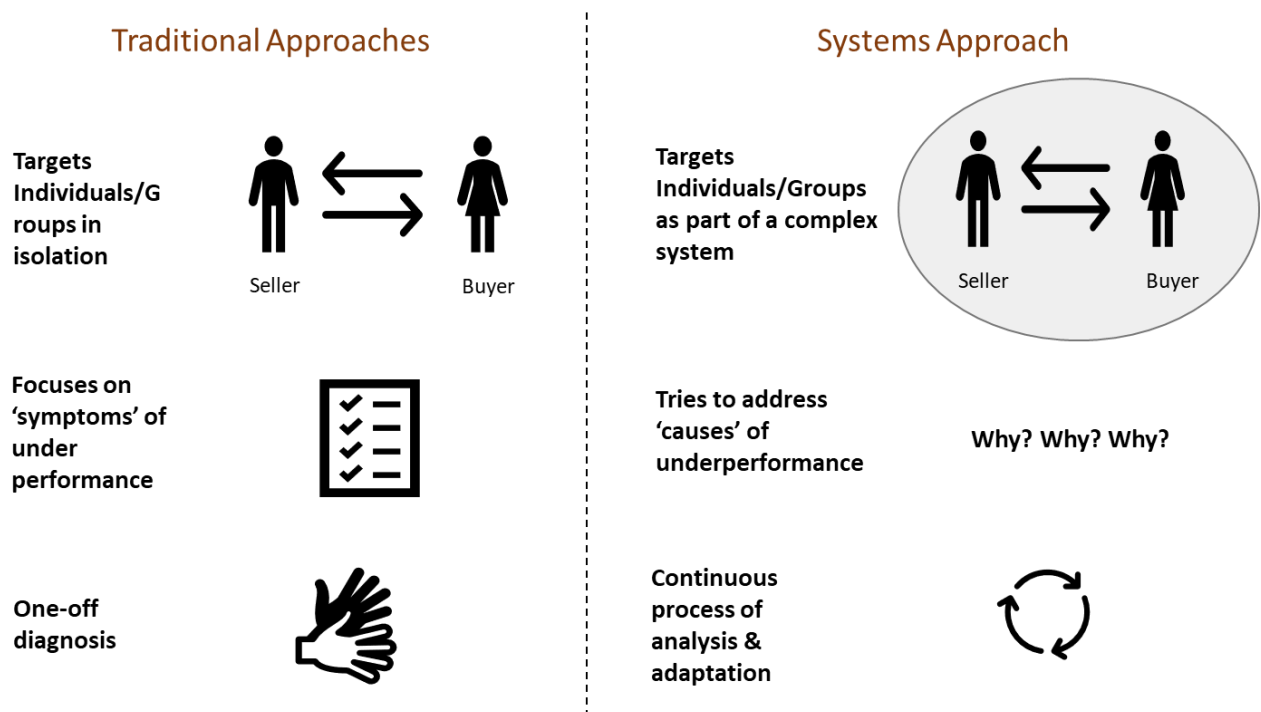
<sup>1</sup> Market Systems Operational Guide

- People in poverty, particularly women, have the resources, capacity, and power to engage meaningfully in markets
- Businesses recognise and realise long-term benefits from pro-poor business models and face pressure to operate in a socially and environmentally responsible manner
- Civil society groups have the capacity and power to influence market rules and drive improved business practices
- Government provide incentives and enforce rules that create fair and strong markets

The complexity of markets makes a systems approach indispensable, particularly given the

- Multiple roles of poor people in markets: Poor people engage markets as consumers, producers, workers, and entrepreneurs.
- Multiplicity of market players: Beyond the immediate buyer-seller, markets are composed of many additional essential actors, including suppliers, distributors, a range of services providers (finance, ICT, agricultural inputs, consulting etc.) business associations, and government bodies.
- Hidden superstructure: Market transactions and market players are embedded in a wider web of regulations, laws, relationships and networks which determine the rules of the game.

## How is MSD different?



## How does MSD work?

Facilitation is central to the MSD approach. Achieving sustainable change requires programmes to play a facilitative role, acting as an *external* agent stimulating improvements in the way in which market actors within the system perform their function. Partnerships with market actors are key to all MSD interventions. The support (technical assistance, co-financing, research, linkages etc.) delivered through these partnerships aim to transform

the incentives and capacities of these actors so that they are better able, equipped and motivated to perform their market function<sup>2</sup>.

### **MSD in Practice**

A multi-donor contribution including Sida in Bangladesh worked to increase incomes of poor farmers. These farmers had a history of vegetable cultivation but very low levels of productivity and low returns on sales of their produce. The programme worked to improve uptake and usage of improved seed as well as good agricultural practices. But they didn't do this by training farmers, distributing seed, or working with individual coops.

Instead, across 10 years, the programme intervened in the seed sector in a number of different ways:

- The provided small grants to one large and one small seed company to pilot a new model of marketing and distribution, linking mobile seed vendors with demonstration plots.
- After two years of monitoring results they realised certain segments of the market weren't buying the improved seeds. Further interventions followed with additional seed companies which adapted the marketing techniques to different audiences using different deliver methods such as village level demonstrations as well as allowing people to trial the seeds with smaller investments through developing smaller packet sizes.
- Three years later, further interventions were developed to push impact towards more remote areas, where packaging was adapted to deliver instructions in different languages.
- Overall, direct investments in these interventions cost around \$100,000 together with significant amounts of staff time.

After a decade of interventions, the results were as follows:

- Formalised mobile seed vendors have been mainstreamed within most seed companies in Bangladesh – some 20 companies, significantly increasing sales and profitability of the companies as well as thousands of jobs.
- Improved vegetable seeds are now available in the majority of regions of Bangladesh.
- Over 20 million of packets of improved seed have now been sold in the minipack format.
- An additional average income for each of the over 1 million farmers who now use the improved seed of \$15 per farmer per season.
- All of these results are sustainable and continue to grow, many years after interventions have ended.

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<sup>2</sup> See Part 3 of the report for more details on the range of intervention instruments used by MSD programmes.



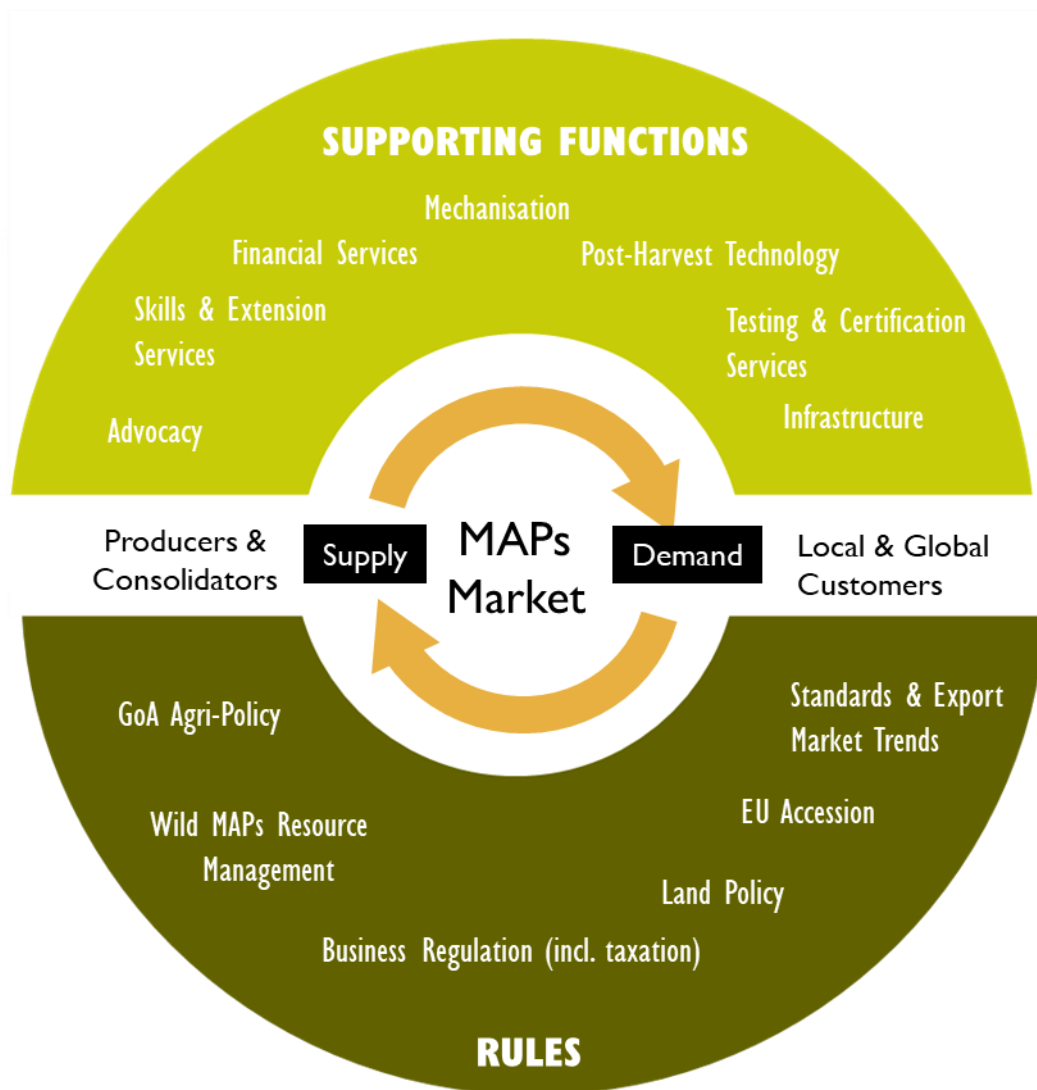
# **PART 2: Analysis of the MAPs Market System in Albania**

## 1 THE MAPS MARKET SYSTEM IN ALBANIA

This section provides some insights into the functioning of the MAPs market systems in Albania. The analysis presented through the lens of the market systems ‘donut’ and includes a description of the core transaction at the centre of the systems and an assessment of the actors, institutions, and processes in the broader enabling environment (support functions and rules) which influence and determine the nature of this transaction. The overall system is illustrated below in Figure 1.

Understanding the challenges and disadvantages faced by MAPs producers is central to the analysis and is explored in detail in this section.

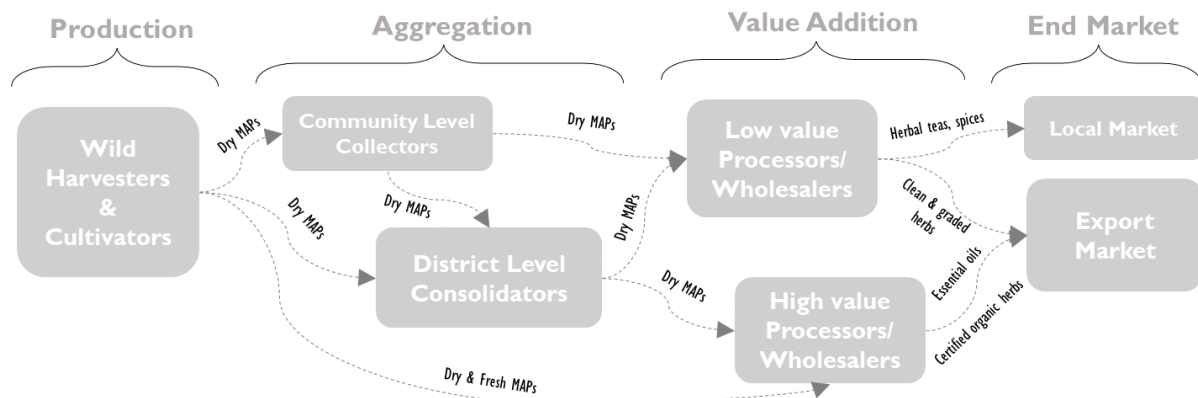
**Figure 2: Albania MAPs Market Systems**



### 1.1 Core Transaction - Overview

This core transaction in the MAPs market in Albania is shown in more detailed below, illustrating the pathway and different actors MAPs pass through on their way to the end markets. The rest of this section below explores this transaction in more detail

Figure 3: MAPs Core Transaction



### Production

Traditionally, the majority of MAPs produced in Albania have been collected or harvested directly from the wild. Although estimates vary, somewhere between 70,000 and 100,000 rural households harvest wild MAPs around their locally areas, storing them in their houses before selling them onto consolidators further up the supply chain. The harvesting of wild MAPs has been an important source of income for these households, particularly in mountainous regions of the country such as Malesia e Madhe, Shkoder, Korce, Berat, Elbasan and Permet - for many households, particularly poorer ones, in these areas over 50 percent of their annual income comes from the collection of wild MAPs<sup>3</sup>. Over 200 types of MAPs are wild harvested, the most important (in terms of economic value) being sage, thyme, winter savoury and oregano<sup>4</sup>.

Recent years have seen a reduction in wild harvesting and an increasing trend towards the organised cultivation of MAPs<sup>5</sup>. This is linked to a number of factors, particularly declines in rural populations due to emigration and also the depletion of stocks of wild MAPs due to bad harvesting practices (e.g. cutting up or removing the whole plant rather than plucking the leaves or flower petals) and over-harvesting<sup>6</sup>. As a result, recent years have seen an expansion in the number of farmers involved in the cultivation of MAPs, particularly sage. Currently over 5,500 hectares of land are under MAPs, the vast majority around the Shkoder area in the North<sup>7</sup>. The most important plants cultivated (in terms of volumes) are sage, lavender, thyme and oregano.

### Aggregation

The aggregation of cultivated and wild harvested MAPs is done by a network of small (community based) and larger (regional or district level) consolidators around the country. Smaller consolidators are typically local farmers or traders with a truck who collect the harvested MAPs from local families and transport them onto larger consolidators. MAPs are typically dried and stored for a period of time by the producer farmer before being collected by the consolidator. The product undergoes significant deterioration, particularly loss of moisture content, during this period due to use of improper drying techniques (e.g. drying directly in the sun), mixing of different plant varieties and poor transport and storage facilities. The larger district level consolidators typically

<sup>3</sup> Source: Interviews with industry stakeholders.

<sup>4</sup> Other notable wild harvested MAPs include wild apple, juniper, oregano, dog rose, lemon balm, hawthorn, dandelion, cornflower and blackberry leaves.

<sup>5</sup> In general, wild MAPs have a higher market value (when properly sorted and dried) compared with cultivated ones, as they have higher content of essential oils and a wider range of micro-elements.

<sup>6</sup> Many wild Albanian MAPs are now classified as endangered or threatened species.

<sup>7</sup> INSTAT 2018 data

have storage facilities/warehouses with capacities of 50-150 MTs. There are 20 to 30 such operators around the country. Some have invested in modern drying equipment, as well as in the cultivation of MAPs themselves (using land rented from farmers or Government), to compensate for the decline in volumes and quality of wild MAPs and to ensure steady supply.

### Value Addition

There is limited value addition of MAPs in Albania. Typically, value addition involves cleaning, grinding, pressing, and packaging the MAPs before export<sup>8</sup>. There are about 10 large collectors or wholesalers who have the capacity to do this on a large scale, these market actors have storage capacities of up 2,500 MTs, turning over USD 2-5 million per annum (see Table below). Below this there are another 10 to 15 players with capacities of between 500-1,000 MTs.

**Table 1: Major MAPs Exporters**

Company	Region	Annual Volumes	Markets
Relikaj Ltd	Malesia e Madhe	700 - 800 Mt	Mainly American buyers such as Advanced Spice & Trading, Griffith Foods, Illes Seasoning & Flavors, McCormick, ConAgra Foods, K.H.L Flavors, Inc, Life Spice Ingredients and Wixon
Herba Fruktus Ltd	Elbasan	1000 - 1200 Mt	Mainly European buyers - Martin Bauer & Kräuter Mix, also other companies in USA
Erba Ltd	Malesia e Madhe	400 Mt	Mainly Europe an USA but also some companies in India and China
Cibuku Ltd	Korce	800 - 1100 Mt	Europe and USA
Gjedra Ltd	Berat	1600 - 2200 Mt	Major clients are Kaluksian (USA), Martin Bauer, Kräuter Mix, Volker (Germany), and other French and Spanish firms
Mucaj Ltd	Malesia e Madhe	800 - 1000 Mt	Europe and USA
Filipi Company	Lac	More than 1000 Mt	USA and European markets
Elba Shehu	Elbasan	More than 1000 Mt	USA and European markets
Faberti Group	Durres	N/A	Mainly European markets

Recent years has seen the emergence of a number of domestic players producing higher value products focused on niche, but growing, high-end export markets. The most prominent example is a company called MEIA which is producing essential oils (mainly from the helichrysum flowering plant) and exporting to the US and Australia. Another example is Wita Herbs which is producing 100 percent organic certified herbs (particularly malva and pot marigold flowers) used in the French pharmaceutical and cosmetics industries. Both of these have already been identified as potential programme partners for CNVP.

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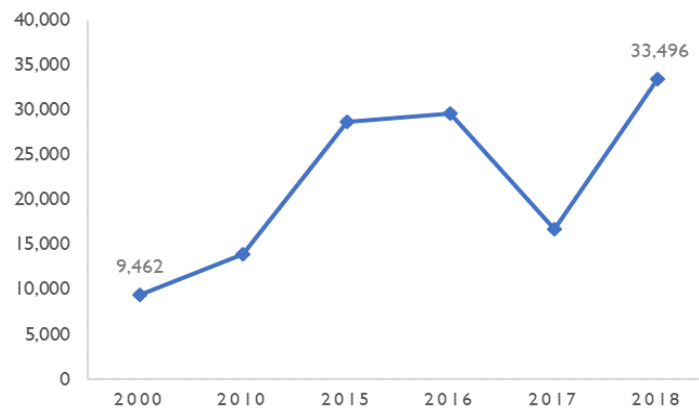
<sup>8</sup> No Albanian company is currently able to complete sterilization of plants. International markets are increasingly demanding steam sterilised spices and herbs as a way to treat microbiological contamination. It can earn a significant premium for suppliers who are able to supply spices and herbs that are steam sterilized at source. Investment in sterilisation equipment is very expensive (up to € 1 million).

## End Markets

Over 95 percent of the MAPs produced in Albania are exported as bulk dry herbs, primarily to the US and EU (mainly Germany)<sup>9</sup>. Export volumes have been growing in recent years<sup>10</sup>. Further processing (more sophisticated cleaning and treating) of the herbs is done in export markets before being used as ingredients in final products in the cosmetics, pharmaceutical, detergents and food industries.

Essential oils represent an interesting end market for Albanian exporters. Being relatively high value and low weight, essential oils production provides enormous potential for both large and small-scale producers (see MEIA case study in Annex 1). Organic production, despite being a relatively small part of total production of MAPs (estimated 5-10 percent) is growing rapidly<sup>11</sup>.

**Figure 4: Albania MAPs Total Export Value (USD\$ 000)**



Source: ITC Trade Map data

Foreign buyers tend to have relationships with a number of Albanian exporters and keep supply contracts short (typically one year) to manage risks associated with failure to deliver the required volumes and quality.

The domestic market for MAPs is currently extremely small, particularly as there no major domestic cosmetics, industrial medicines or food processing industries in Albania. The main products traded in the domestic market are herbal teas and spices and are sold in open markets or retail outlets in major towns and cities.

## 1.2 Core Transaction - Performance & Dynamics

Some of the key characteristics behaviours which define the performance of the MAPs market core transaction include:

### Limited coordination between producers and buyers

One of the defining characteristics of the core transaction in the MAPs market systems is loose relationships and limited coordination between producers and buyers further up the chain. Exporters and processors at the top of the value chain typically have established relationships with a number of regional consolidators across the country.

<sup>9</sup> The big Albanian exporters have long established relationships with major German food processors such as Kalustyan, Martin Bauer, Krauter Mix, Voller. A considerable portion of MAPs produced and processed by Albanian companies, around 20-40%, are also sold to small foreign firms, usually end-users of the product. In general, these companies place small orders but usually, larger variety of products.

<sup>10</sup> Exports dropped in 2017 due to over-production of sage and reduced demand from the US market.

<sup>11</sup> 10-20 percent of volumes exported by some large companies is organic. In some cases, such as Sonnetor all production exported is certified as organic.

Orders (plants required and quantities) are placed with these consolidators, who in turn pass the message on to their network of producers in their local area. Prices are typically agreed with the producer at the point of delivery. As highlighted above prices are usually based on volume or weight, with little emphasis on quality. Producers therefore typically harvest and cultivate MAPs with limited advance knowledge and information on prevailing market trends (particularly prices and plants demanded), standards and good agricultural practices.

This dynamic has however been changing in recent years, driven by the entrance of new players into the domestic market and buyers in export markets imposing more stringent standards (particularly in terms of product traceability and the upholding of environmental and labour standards) on their suppliers globally, particularly ones in developing countries. MEIA for example sources directly from producers, by-passing regional consolidators completely, to ensure it has more control over its supply of MAPs MEIA now has contract farming arrangements with over 400 individual producers, mainly around the Shkodra area in the North. Through this arrangement producers are provided with a fixed price over five years and also have access to inputs (mainly seedlings), extension and mechanisation services through MEIA. The key driving force behind this is the stringent quality standards required by MEIA's buyers in export markets.

### Unsustainable Production Practices

Overharvesting as well as the use of bad harvesting practices has led to the depletion of the stock and diversity of wild MAPs in Albania over the past 20 years<sup>12</sup>. The most damaging practices include early harvesting (before the plant is ripe), uprooting whole plants and using sickles to cut the plant rather than only plucking the leaves. This behaviour is driven by a number of factors. Lack of knowledge on the part of collectors is partially to blame (discussed further in the next section below), the more important determinant is demand from consolidators up the chain where the emphasis is on volumes rather than quality. The incentive for the harvesters is therefore to increase the sales weight of the plant to increase revenue. Public agencies also lack the capacity and resources to effectively oversee and monitor the harvesting of wild MAPs.

### Poor Post Harvest Management

Further reduction in quality occurs when the plant is stored and dried by producers. For example, in the case of sage to maintain its quality the plant needs to be dried in the shade, but to quicken drying process producers dry the plant in direct sunlight<sup>13</sup>. As highlighted above this dynamic has been changing in recent years as new players entering the market are increasingly demanding quality to meet the requirements of export markets. For example, a number of regional collectors and exporters have invested in drying facilities and are increasingly moving towards collecting MAPs 'fresh' as soon as they are harvested by collectors. Many of these market actors are also moving into the cultivation of MAPs in order to maintain closer control over the production process to ensure both quantity and quality.

### Low Value Addition & Wealth Creation

As highlighted above the majority of Albanian MAPs are exported raw with limited value addition. As a result, opportunities to access higher value markets (with the resultant higher prices) and also the wider economic opportunities (job creation, incomes etc.) created by these value added industries are not being realised.

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<sup>12</sup> See Boban (2014) Assessing the Medicinal and Aromatic Plants in Albania Value chain analysis, Centre for International Development, Harvard University; USAID (2009) The Medicinal and Aromatic Plants Value Chain in Albania USAID – Albania Agriculture Competitiveness (AAC) program; CNVP (2019) Assessment of Challenges And Opportunities related To Non-Timber Forest Products in the Wider Prespa Area

<sup>13</sup> Boban (2014) Assessing the Medicinal and Aromatic Plants in Albania Value chain analysis, Centre for International Development, Harvard University; USAID (2009) estimates a 25% reduction in the value of sage due to lack of harvesting and storage facilities

The combination of low producer-buyer coordination, unsustainable production practices and post-harvest losses, limited value addition ultimately result in low quality, low prices and ultimately lower incomes for actors operating across the sector, particularly producers. Addressing these issues will be the focus of CNVP's interventions.

### 1.3 Understanding the Disadvantages faced by MAPs Producers

Producers harvesting and cultivating MAPs highlight an array of challenges they face, which can be broadly categorised as follows<sup>14</sup>:

#### Information

Key information and knowledge gaps faced by producers include information on prices, varieties of plants demanded, new technologies (e.g. improved seed and plant varieties) and good production and post-production practices (particularly drying and storage best practices). These information gaps result in a great degree of uncertainty when planting and harvesting. This lack of information and associated uncertainty explains some of perverse behaviours of producers, particularly the unsustainable production and poor post-harvest practices highlighted above (why invest time, energy and scarce resources in following good practice when there's no guarantee that this will be rewarded?).

Buyers further up the chain typically take advantage of producer knowledge and information gaps, usually in the form of lower prices. The information producers need should come from a number of sources, including information on new technologies and best practices from the public extension system (the public extension system is discussed further below in the support functions) but more importantly from buyers further up the supply chain. In most countries buyers have a strong incentive to engage closely with producers in their supply chain to ensure they have the knowledge and skills to ensure quality and standards requirements are met. This incentive is not as strong in Albania. This is largely a function of the relationships Albanian buyers and exporters have with their clients in export markets (short-term agreements to supply relatively low-quality raw herbs) as well as other issues in the broader business enabling environment in Albania (discussed further in the 'rules' section below).

It is important to emphasise that this dynamic is changing, as highlighted above a number of new players in the domestic market have developed commercial relationships with higher value (particularly essential oils and organic certified products) buyers in export markets. The stringent quality requirements of these buyers require suppliers to have much closer control over their supply chain, part of this means ensuring producers have access to the information and knowledge they need as well as the incentives to apply these good practices through better prices. There is already evidence of this happening in Albania, particularly in the case of companies like MEIA and Wita herbs who are entering long-term contracts with producers with fixed prices (both offer a very high premium, typically double the normal market price, if the producers delivers a fully organic plant) and embedded services including the provision of agronomic advice and inputs (particularly seedlings).

#### Price

Farmers major complaint is low prices. Due to the information asymmetries highlighted above buyers are obviously in a much stronger position than producers and try to exploit this by pushing down prices<sup>15</sup>. However, the degree to which they are able to do this is open to debate, particularly as competition between buyers for produce is fierce in most areas of Albania, this competition sometimes results in better prices for farmers<sup>16</sup>. The most

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<sup>14</sup> The observations in this section are based on discussions directly with farmers and buyers further up the value chain as well as the experiences of CNVP staff who have been working in the MAPs sector for a number of years.

<sup>15</sup> This phenomena is more evident in remote areas such as Gramshi, Skrapar, Kukes, etc where farmers have fewer alternatives compared to those living in Malesia e Madhe - an area with a large concentration of large exporting companies.

<sup>16</sup> See Boban (2014) Assessing the Medicinal and Aromatic Plants in Albania Value chain analysis, Centre for International Development, Harvard University

prevalent complaint from farmers is late or delayed payments<sup>17</sup>. The real issue here however is the industry focus on weight rather than quality. Buyers typically pay farmers based on the weight of their output with little or no emphasis on quality. Because of this emphasis prices are generally lower for everyone. An industry shift and an emphasis on quality would likely raise prices for everyone. As emphasised above this is already happening in Albania. MEIA, Wita Herbs and Sonnetor offer MAPs producers double the price if they can deliver plants which are fully organic.

Another issue impacting farmers ability to negotiate better prices is generally low levels of collaboration and cooperation amongst Albanian farmers (with some exceptions - see case study 2 in Annex) . Most farmers engage with markets as individual sellers as opposed to groups, therefore losing out on the benefits of collective bargaining power. Not only does it disadvantage the farmer when it comes to accessing output markets but also when it comes to input markets. Better organised farmers coordinating as a group can obviously use this power to negotiate when it comes to buying key inputs such as seedlings or accessing value added services such as training and mechanisation services. The reasons for low levels of farmer cooperation are complex and can be linked to a combination of historical and cultural factors, particularly the Albania's experiments with collective farming during communist times.

## Resources

Farmers complain that they lack sufficient resources to invest in the production of MAPs. These resources can be broadly categorised into capital, equipment, labour and land.

Access to finance is an issue impacting the agricultural sector as a whole and is discussed further in the section to follow below. Difficulties accessing finance impacts farmers ability to invest in equipment and technology required to improve productivity levels, the most import for MAPs producers is improved drying and storage technology. As highlighted above significant losses in quality occur due to poor-post harvest management, this is largely a result of inadequate drying and storage facilities at the farm level. Obviously then improvements in the storage and drying capacities in the areas where MAPs are collected or cultivated can substantially improve the value that is captured by farmers. However, changing this requires more than just improving access to finance and to appropriate storage and drying technologies. For farmers to really capture this additional value changes in how they organise and collaborate will be required - in this case shared ownership and use of improved storage and drying technologies will likely be a key part of a cost-effective solution to post-harvest management of MAPs.

Labour availability and costs is becoming a bigger issue for the industry, particularly as the organised cultivations of MAPs expands. The harvesting of MAPs is particularly labour intensive, and traditionally this labour has been abundant and cheap in rural areas. This is changing however as labour is becoming increasingly scarce due to high levels emigration over the past decade<sup>18</sup>. Increased mechanisation is a potential solution to this and is discussed further below. It is important to note that a lot of this labour is performed by women, typically doing this informally, excluding here from social services and benefits such as maternity leave<sup>19</sup>.

The land reform process which was initiated in the early 1990s resulted in the creation of a large number of small fragmented farms. The reform process has resulted in conflict and confusion over land ownership and impeded the development of a functioning land market. The issue of land is explored further in the rules section below.

It is important to emphasise that issues impacting farmer access to resources are particularly acute for women. Male gender roles are associated with tasks that involve control over agricultural assets, mobility and decision-making and female gender roles typically involve manual pre and post-harvest work. This division of labour means women have limited access to and control over agricultural assets, resources and decision-making.

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<sup>17</sup> Most buyers tend to pay farmers after they have been paid by their international buyers, typically 8-10 weeks after delivery.

<sup>18</sup> Wages are estimated to have increased by 50 percent over the past 4 or 5 years.

<sup>19</sup> FAO (2018) Gender, Agriculture and Rural Development in Albania



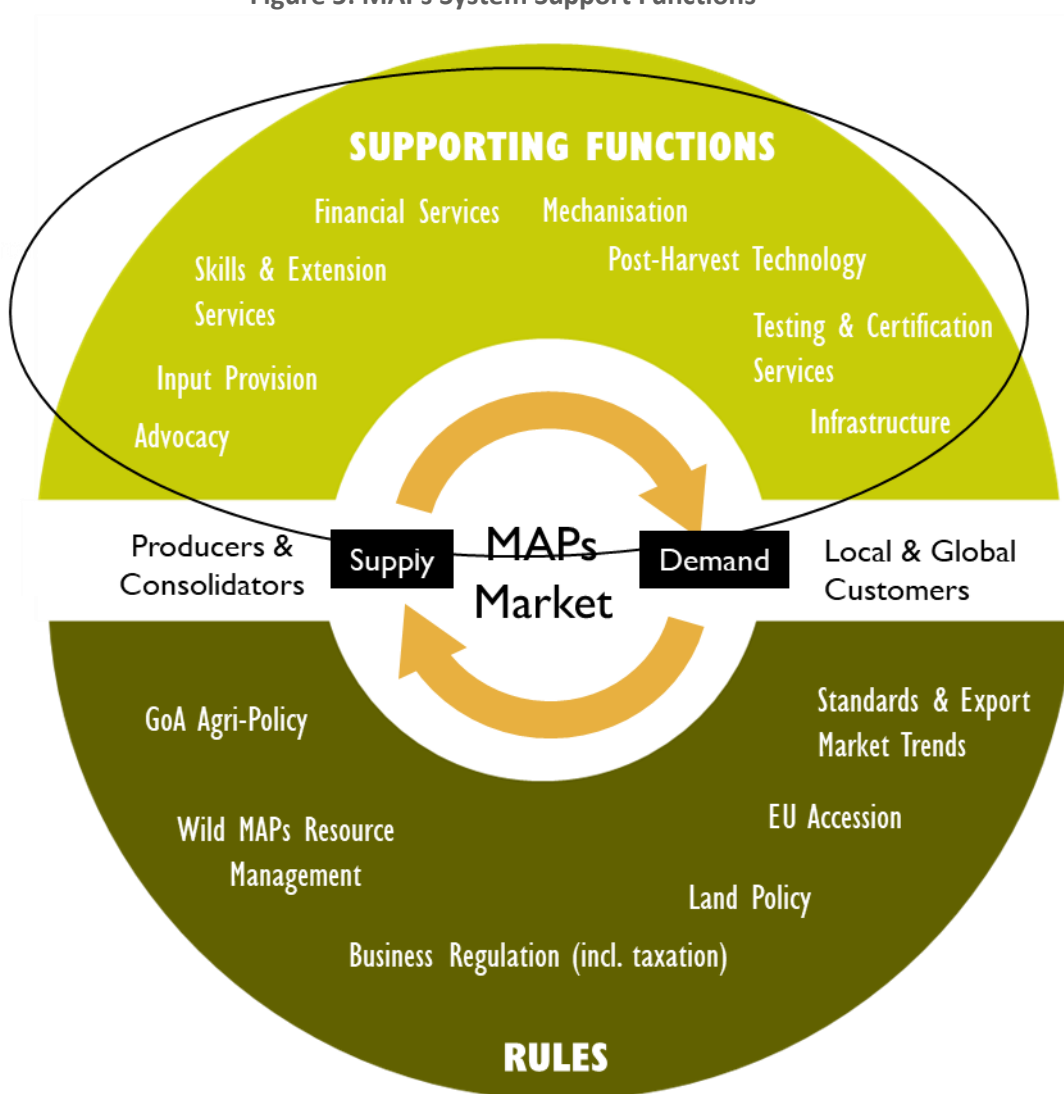
## 2 UNDERSTANDING WHY THE SYSTEM ISN'T WORKING - SUPPORT FUNCTIONS & RULES

The previous section highlighted some of the issues faced by MAPs producers. The discussion below on the system's support functions and rules highlighted some of the problems and challenges faced by enterprises operating in the MAPs sector.

### 2.1 Support Functions

Support functions include a range of sector-specific functions that inform, support and shape the quality of the core function. The key ones in the MAPs market system are highlighted in the diagram and discussed in further detail below.

Figure 5: MAPs System Support Functions



#### Advocacy

Low levels of collaboration and coordination between actors across the MAPs sector makes it difficult for the industry to act as a coherent entity and advocate for solutions to issues impacting the growth and development of the sector (see the rules section below for more details on some of the important policy related issues impacting the industry).

At the farmer level there is no association for MAPs producers voicing their concerns and challenges. There are two, what seem to be competing associations - Essence Producers and Cultivators Association (EPCA) and the Association of Consolidators, Processors and Exporters of Medicinal Plants (ACPEM) - representing buyers further up the chain. The general consensus is that these associations do not function in any meaningful way - they have no permanent staff and offices and no active members or membership fees. These associations main function seems to be to represent the narrow interests of a couple of the larger MAPs exporters<sup>20</sup>.

### Input Provision

Better access to a broader range of modern agricultural inputs - particularly seeds, seedlings, better fertilizers and pesticides (in particular organic ones) - will become an increasing priority as the MAPs sector moves increasingly towards organised cultivation in the coming years. Access to synthetic fertilizers and other productivity enhancing inputs such as seed and pesticides was an important part of communist agricultural strategy. The state structures which distributed these inputs starting to collapse during the late 1980s and 1990s and new private sector channels have slowly emerged over the past 20 years. There are now an estimated 150 private input dealers around the country, marketing mainly chemical fertilizers and pesticides targeting large scale vegetable and fruit producers. Availability of inputs for MAPs is limited, particularly certified seeds and seedlings for a broad range of plant varieties and non-chemical organic fertilizers and pesticides. Most MAPs cultivators import planting material and other improved inputs themselves, mainly from Greece<sup>21</sup>.

### Skills and Extension Services

Access to information was highlighted earlier as an important issue facing producers of MAPs. Public agricultural information delivery systems do not function well in Albania. For MAPs the Agricultural Technology Transfer Centre (ATTC) is responsible for conducting research into new technologies (e.g. new plant varieties, improved agricultural practices, standards etc.) the extension service delivered through the Directorate of Agriculture (DoA) is responsible for the dissemination of this information to producers. The services of these public agencies have been limited in terms of outreach and impact. Few MAPs producers report having gotten any advisory services from these agencies and those that have demonstrate little or no improvements in production practices<sup>22</sup>. Most farmers tend to rely on alternative private advisory services, typically either donor projects and/or input suppliers or buyers further up the chain as highlighted earlier. Access to information tends to be more challenging for women, this is linked to male-dominated communication channels that exclude women; stereotypical links between technology, machinery and men; and in general gender defined roles confining women to the home<sup>23</sup>.

### Financial Services

The Albanian financial system is dominated by banks, accounting for over 90% of total financial sector assets in 2018<sup>24</sup>. There are currently 16 banks operating in the market. Other non-banking financial services, particularly insurance, remain at an early stage of development. The proportion of overall national credit allocated to the agricultural sector is extremely low, less than 5 percent by many estimates<sup>25</sup>.

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<sup>20</sup> Interviews with industry stakeholders

<sup>21</sup> Source: interviews with buyers.

<sup>22</sup> See Boban (2014) Assessing the Medicinal and Aromatic Plants in Albania Value chain analysis, Centre for International Development, Harvard University; Viaggi et al (2010) Current challenges of Albania extension services in the context of EU integration and global markets, Paper prepared for the 116th EAAE Seminar "Spatial Dynamics in Agri-food Systems: Implications for Sustainability and Consumer Welfare"

<sup>23</sup> FAO (2016) Gender, Agriculture and Rural Development in Albania

<sup>24</sup> See Ribaj A (2018) National Financial Inclusion Strategy in Albania, European Journal of Marketing and Economics

<sup>25</sup> Ribaj Artur & Mexhuani Fitim (2018) National Financial Inclusion Strategy Albania, European Journal of Marketing and Economics.

Actors in the MAPs system finance their activities in a number of ways. MAPs producers have typically financed their activities through their own internal resources, having very little access to external sources of finance, particularly from the formal financial sector<sup>26</sup>. In rare cases, loans from Micro Finance Institutions (MFI) such as Besa have been used by local farmers to invest in new plantations. Obviously for wild collection the finance requirements are low as little or no investment is required in inputs and labour. Lack of finance options has likely been one of the reasons why harvesters have been unable to invest in better storage and drying facilities though. As more farmers move into organised cultivation access to finance is likely to become a bigger issue.

Buyers further up the chain require a mixture of working capital to fund their purchases from producers and investment finance for warehousing and processing facilities. Working capital requirements are significant for these buyers, particularly those who work with multiple plants harvested throughout the year, requiring liquidity all year round to fund their operations. Most of them fund this through expensive loan and overdraft facilities, with interest rates typically in the range of 20 to 30 percent. To fund capital investments many of buyers have been able to access grant funding from a number of sources, particularly IPARD-like, and have used this to upgrade and increase their warehousing and processing capacities.

### Mechanisation & Post-Harvest Technology

The production of MAPs has traditionally been a labour-intensive process due to the fact that the majority of MAPs were harvested by hand from the wild. The increasing trend towards organised cultivation will increase the demand for mechanisation services, particularly as labour is becoming increasingly scarce and expensive in rural areas due to high levels of emigration. Mechanisation can play an important role in increasing the quality and quantity of MAPs<sup>27</sup>, particularly through more timely harvesting - a number of cultivators complained that heavy rains have affected the quality of MAPs over the past couple of years and that they were unable to access labour to harvest the crop on time. Machines tailored to the requirements of MAPs are currently not available on the Albanian market<sup>28</sup>. As mentioned above, one of the embedded services offered by MEIA to its farmers is mechanisation - to do this they have been importing machinery (planting, weeding and harvesting implements) directly from Italy.

Similarly, post-harvest technologies suitable (particularly in terms of affordability) to the needs to small scale producers seem to be in short supply in the local market in Albania. For example, storage and drying technologies used by MAPs producers in Kosovo cannot currently be accessed in Albania.

### Testing and Certification Services

A variety of certificates signifying compliance with international quality standards are required to access export markets. Albinspekt the currently the only local Albanian service provider which is internationally accredited and capable of certifying a range of products and processes related standards for Albania exporters<sup>29</sup>. These include EU Regulation 834/2007 (for exports to EU countries, Global GAP (standard for international safety in agriculture), ISO 9000:2008 (standard for quality management systems); Organic (Bio Suisse organic standard for the Swiss market, NOP organic standard for US, BioAdria standard for local Albania market). Virtually all of the Albanian firms exporting MAPs use the services of Albinspekt.

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<sup>26</sup> Buyers have probably been the major source of external finance for producers, typically providing wild collectors with small advance payments.

<sup>27</sup> A USAID study estimated a quality improvement of 30-40%. See USAID (2009) The Medicinal and Aromatic Plants Value Chain in Albania USAID – Albania Agriculture Competitiveness (AAC) program

<sup>28</sup> Source - interviews with buyers. A deeper analysis of the range of machines offered by Albania machinery importers and dealers will be required during implementation.

<sup>29</sup> Albinspekt was set up in 2007 with support from a SDC programme. Albinspekt is accredited by the German accreditation body DAkkS.

Product testing is a challenge for the industry. Two types of testing are typically done by exporters of MAPs; phytosanitary testing (to determine whether the product is organic and safe), and second component testing to determine the quality of the plant (e.g. to assess oil content, thuyon content for sage, active principles for lavender, nitrite content etc.). Basic phytosanitary testing can be done by local laboratories in Albania<sup>30</sup>. Component testing cannot be done locally, exporters have to send samples abroad to do this.

## Infrastructure

Underdeveloped and poorly maintained infrastructure - roads, electricity, water and technology - is a major challenge for rural communities in Albania. For MAPs producers and processors located in rural areas poor infrastructure drives up production costs, negatively affecting their access to information, input and output markets.

There have been very significant investments in improving the quality and reach of the road network in Albania over the past couple of decades<sup>31</sup>. Road access to mountainous rural areas where most MAPs producers are located is still generally poor though. A significant share of this rural road network is unpaved and in poor condition, with many sections impassable at certain times of the year, particularly in winter.

The electricity supply has improved significantly since the early 2000s, electricity shortages and outages are now much less prevalent in rural areas.

Access to technology in rural areas is much lower in rural compared to urban areas. An estimated 20 percent of households at national level have a computer - 83 percent of these are located in urban areas, just 17 percent in rural ones<sup>32</sup>. The penetration of broadband is low in Albania, particularly in rural areas - only 8% of the households in rural areas have access to the internet<sup>33</sup>.

Inadequate technology and infrastructure in rural areas have important implications for rural women and their access to economic opportunities outside the home, including ones related to the production and processing of MAPs. Rural women invest significantly more time in domestic activities (food preparation, cleaning, child-care etc) than women in urban areas and men in rural areas – rural women invest 5 hours and 55 minutes per day in domestic unpaid work, while men invest just 56 minutes<sup>34</sup>.

## 2.2 Rules of the Game

Market transactions and market players are embedded in a complex web of policies, regulations, laws and relationships which shape and influence their behaviour. In the MAPs sector there are a number of dynamics or factors in this broader superstructure which are driving reform and upgrading of the industry (the prospect of EU membership and global herb market trends discussed further below) on the one hand, whilst on the other hand there are other factors, particularly limited and unpredictable policy support for the sector and a problematic local business environment, which are impeding change and reform.

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<sup>30</sup> Many exporters send their product abroad to do more sophisticated testing, this depends on the requirements of the buyer.

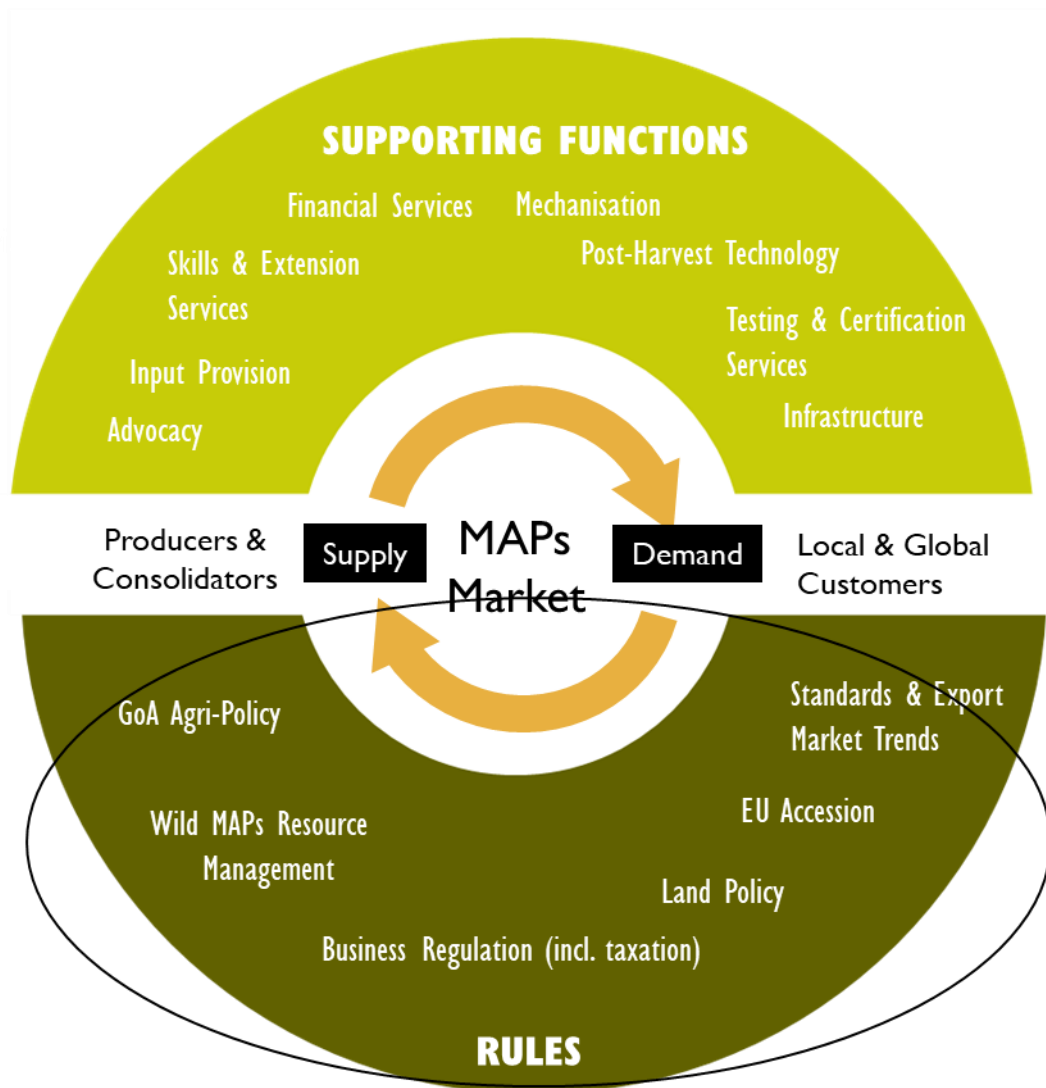
<sup>31</sup> EUR 140 million loans from EBRD, EIB, CEB have supported the rehabilitation of 1,500 km of secondary and rural roads in Albania over the past decade

<sup>32</sup> INSTAT

<sup>33</sup> INSTAT

<sup>34</sup> FAO (2016) Gender, Agriculture and Rural Development in Albania

Figure 6: MAPs System Rules



### Government Agri-Policy & Wild MAPs Resource Management

There is no overall Government of Albania (GoA) policy or strategy specifically guiding the development of the MAPs sector in Albania. Various agricultural policy documents include measures to support and promote the MAPs sector, the most important being the Inter-sector Strategy for Agriculture and Rural Development (ISARD) 2014-2020<sup>35</sup>. Implementation of ISARD is coordinated by the Ministry of Agriculture, Rural Development and Water Administration (MARWA).

In general, budgetary support for the agricultural sector allocated through ISARD has been increasing over the past decade. This support is modest though when compared to the agriculture sector’s size, needs and

<sup>35</sup> ISARD provides for interventions in three policy areas: (i) rural development policy; (ii) national support schemes for farmers, development of rural infrastructure and ensuring equal opportunities; and (iii) institutional development, implementation and enforcement of the EU regulatory requirements.

contribution to the national economy, as well when compared to the support in other Balkan countries and the EU.<sup>36</sup> The policy measures supported with the GoA's budget have included:

- Input subsidies: To stimulate improvements in the quality of cultivated MAPS the GoA heavily subsidised seedlings sourced by farmers from authorised sapling producers. The success of the scheme has been limited - the higher price and lower productivity of the subsidised seedlings and perceptions that the scheme was biased towards larger farmers led to most cultivators using other ways of obtaining saplings<sup>37</sup>.
- On-farm investment support focused mainly on up-grading technology, through grants cost-sharing new equipment (particularly irrigation and greenhouse infrastructure) and construction of buildings. Consolidators and other buyers of MAPs who have moved into the cultivation of MAPs over the past decade have benefited from this investment support. Farmer groups registered as Agricultural Cooperation Associations could also access this funding, however most farmers involved in the cultivation of MAPs are not organised in this way.
- Food industry support sharing costs of investments in storage, postharvest and processing infrastructure. As highlighted above many medium to large MAPs wholesalers and processors have been able to access this funding to upgrade their facilities.
- Direct producer support: Direct producer support measures are very modest, the majority of direct payments to producers go to the livestock sector mainly in the form of headage payments for small ruminants. High levels of informality and low levels of registration of farmers in the farm register are preventing the expansion of this support to other areas, to MAPs producers for example.

Other areas relevant to MAPs include actions to support the protection of forests and natural resources. In the area of forest protection, a recent analysis by CNVP noted major weaknesses, particularly an inadequate current legal framework for the protection of forests; overlapping mandates between different public agencies and limited capacity on the part of these agencies to be able to monitor and oversee policy<sup>38</sup>. One of the results of this has been the uncontrolled and unsustainable harvesting of wild MAPs over the past decade.

As is the case in most developing there exists a big gap between the vision and measures pronounced in documents and actual policy implementation. In particular, measures seem to change frequently, often suddenly without any explanation, ex-post evaluations of the impact and efficiency of measures are rare, and there's always the suspicion that support is skewed in favour of the politically connected<sup>39</sup>. This makes it difficult for operators in the MAPs and agriculture sector in general to read and interpret the policy signals and intentions of the GoA and plan accordingly.

### Business Enabling Environment

The nature of the business operating environment in Albania presents some major challenges for businesses across all sectors of the economy. The major issues highlighted by Albanian businesses include corruption, taxation issues, access to skills and training, informality and informal competition; and complex legal and regulatory frameworks<sup>40</sup>. Operators in the MAPs sector complain about the prevalence of informal competitors; corruption, particularly when it comes to accessing GoA support schemes highlighted above; and issues related to tax - MAPs buyers are particularly upset by recent changes to the Government's VAT reimbursement scheme for agriculture<sup>41</sup>. Ultimately these issues drive up the cost of doing business, with producers paying in the form of lower prices, delayed payments and difficulties accessing markets.

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<sup>36</sup> See Zhllima Edvin & Gjerci Grigor (2016) Albania: Agricultural Policy Development

<sup>37</sup> See Boban (2014) Assessing the Medicinal and Aromatic Plants in Albania Value chain analysis

<sup>38</sup> CNVP (2019) Assessment of challenges and opportunities relates to non-timer forest products in the wider Prespa area

<sup>39</sup> Interviews with industry stakeholders

<sup>40</sup> IDRA (2018) An Enabling Environment for Sustainable Business in Albania

<sup>41</sup> Source: interviews with industry stakeholders

## Land Policy

Albania's agricultural sector has been characterised by two very different farm structures during the 20<sup>th</sup> century. During the 1950s through to 1991 during the communist era agricultural activities were carried out by large agricultural cooperatives and state farms cultivating thousands of hectares. Since the 1990s agricultural activities are now carried out predominantly by large numbers of small family farms based on the land reform of 1991. The land reform process distributed land to rural families who used to be in the collective and state farm structures on an equal per-capita basis, resulting in large numbers of small fragmented farms<sup>42</sup>. Pastures and forests remained in state ownership. The major legacy of this land reform process today is large numbers of disputes and conflicts between old (pre-communism) and 'new' landowners and general uncertainty around land ownership, hindering the development of an efficient land market<sup>43</sup>. Efforts have been on-going to register and clarify land ownership and property rights through the establishment of a digital cadastre, however progress has been very limited to date. The shortcomings of the land reform process have a number of implications for the MAPs sector. A number of producers highlight difficulties to accessing land to expand the organised cultivation of MAPs as a major problem. Uncertainty around land ownership also impacts farmers' decisions to invest in upgrading their farms as well as their ability to access the resources required to do this - lack of land titles and improper documentation means that farmers cannot use their land as collateral to access finance.

Ownership of land by women is impeded by a number of factors, these include land registry practices associated with the 1990s reform in which land was distributed to individuals identified as the heads of households, typically men; the practice of patrilocal marriages in rural areas which often results in women not claiming their ownership rights over land either within their own families or within their new step-families; and inheritance practices which favour awarding land to male descendants<sup>44</sup>.

## EU Membership & IPARD Funding

The prospect of and preparations for EU membership is driving changes across the agricultural sector in Albania, in particular is increasing pressure on Government to deliver more effective policy to ensure a more competitive and sustainable farming sector. Since 2014, when Albania was awarded candidate status, efforts have been on-going to formulate a compliant agriculture and rural development policy and update the legal and institutional base to comply with the EU's Common Agriculture Policy (CAP). This comes with very significant funding and technical support. The €50m Instrument for Pre-Accession Assistance for Rural Development (IPARD II) programme has been adopted by the GoA, approved by the European Commission in July 2015 and ratified by the Albanian Parliament in March 2016. Since then the IPARD Operating structure (Managing Authority) and the Agricultural and Rural Development Agency (ARDA; the Paying Agency) has been undergoing an accreditation process. IPARD II implementation was formally launched in Albania in late 2018.

## Standards & Global Herb Market Trends

Given the export orientation of the MAPs sector trends and developments in global markets play an important part in shaping and influencing the behaviour of the industry in Albania. One important current trend which is already having an impact on domestic actors is the increasing emphasis on compliance with ethical and sustainable sourcing of herbs and spices - key issues relate to the correct use of pesticides, no child labour, health and safe working conditions, loss of biodiversity and fair payment of farmers. Developing country suppliers are increasingly

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<sup>42</sup> The average farm size in Albania today is less than 2 hectares. In mountainous areas average farm sizes are smaller, less than 0.5 hectares

<sup>43</sup> It is important to note that in the North and mountainous areas of the central part of the country land was distributed according to old boundaries or to former owners pre-communism. In these areas there seems to be fewer over-lapping claims over the land.

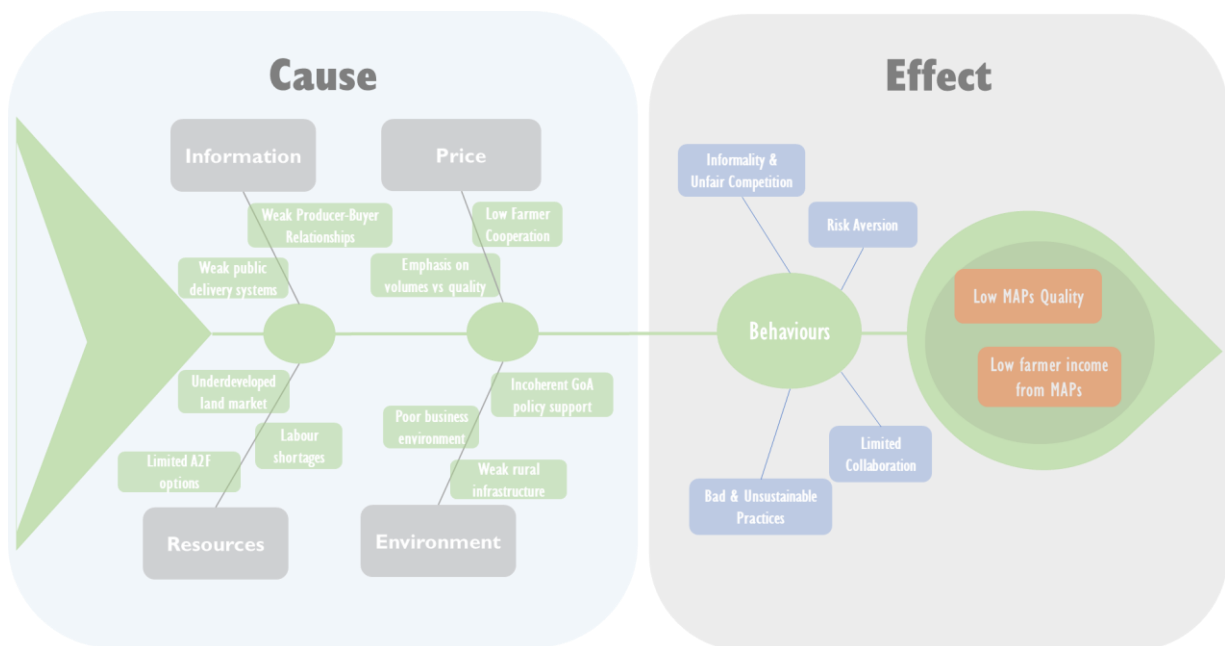
<sup>44</sup> See FAO (2018) Gender, Agriculture and Rural Development in Albania.

being asked to comply with supplier’s codes of conduct and/or be assessed<sup>45</sup>. This requires suppliers in countries such as Albania to have much closer control over their supply chain and invest in the development of more sophisticated traceability systems monitor and manage this supply chain. One of the important implications of this for the purposes of this project is that it requires much closer coordination between producers and buyers further up the chain.

### 3 SYNTHESISING THE MAPS SYSTEM CONSTRAINTS

This section clarifies, orders and synthesises the various problems, challenges and issues highlighted in the analysis in the previous sections. The diagram below summarises the main problems (right-hand side of the diagram) identified in the analysis and the key drivers or causes of these problems (left-hand side of the diagram). Addressing the causes of the problems will be the focus of CNVP’s interventions in the MAPs market system.

**Figure 7: Overview of MAPs System Problems**



Starting at the right-hand side of the diagram above the key problems which will become of the focus of CNVP’s interventions in the MAPs sector will be increasing the quality of MAPs produced and exported in Albania, in the process increasing the incomes earned by MAPs farmers.

The key behaviours driving the current low quality-low income equilibrium of the system can be characterised as:

- Bad and unsustainable practices on the part of farmers. As emphasised in the previous section major losses in quality occur due to current pre and post-harvest practices employed by farmers. These practices damage not only incomes and quality but also the biodiversity of Albania.
- Low levels of collaboration: Communist era experiments with collectivisation have left a legacy of suspicion around initiatives aimed at stimulating cooperation and collaboration amongst farmers. This impacts farmers ability to effectively access input and output markets as well as productivity enhancing services including mechanisation and improved post-harvest management technologies. Low levels of collaboration are also

<sup>45</sup> See CBI (2018) Trendmapping: Spices and Herbs



evident further up the chain where buyers are unable to effectively organise and associate to lobby the GoA for policy reform.

- Risk aversion is another defining characteristic of the system. Farmers, due to uncertainties around a wide variety of issues - particularly market and prices as well as access to information and resources - are not in a position (i.e. they don't have the capacity or the incentive) to engage in risky investments in new technologies and/or new ways of doing things. Similarly, businesses further up chain exposed to similar risks again are unwilling and unable to experiment with new innovative ways of doing business.
- Unfair competition: The difficult local business environment, particularly issues to do with taxation, results in many players remaining informal and competing unfairly against formal businesses, in the process driving down quality and standards.

The left-hand side of the diagram highlights the underlying causes of these behaviours and problems, these include:

- Information: Access to information linked to weaknesses in the public extension system and low levels of coordination between producers and buyers results in major gaps in farmers knowledge of market requirements, prices and standards.
- Low prices and uncertainty around prices impact the MAPs producer's incentive to adhere to good agricultural practices. As highlighted in the analysis this is linked to industry's emphasis on volumes rather than quality and farmers preference to engage with markets as individuals as opposed to groups.
- Accessing sufficient resources is an access for both producers and businesses further up the chain. Resource shortages are linked to a poorly functioning land market; shortages of labour and financial system not equipped to serve the needs of agricultural operators.
- These issues are compounded by challenges in the wider enabling environment, particularly piecemeal and unpredictable GoA policy support for the sector and weaknesses in rural infrastructure.

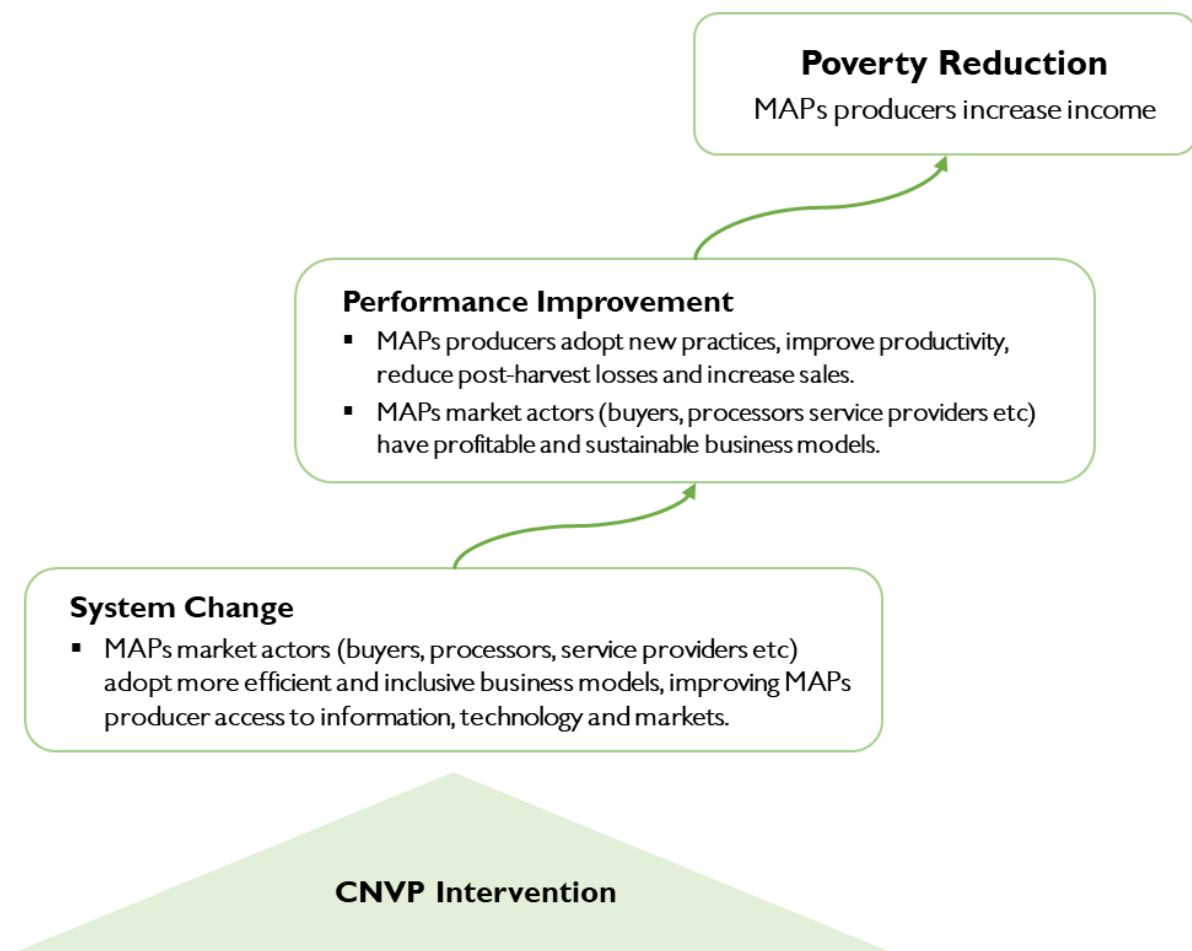
# **PART 3: CNVP MAPs Intervention Strategy**

## 1 VISION OF CHANGE - What do we want to achieve?

The analysis in Part 2 has identified what is not working (the constraints) in the MAPs market system and provided some insights into why (the root causes of these constraints) it is not working. CNVP will develop and implement a set of interventions to address these constraints and improve the long-term efficiency and inclusiveness of the MAPs market system in Albania.

The figure below sets out a high-level vision of the change process which CNVP aims to set in motion through its interventions. These interventions are obviously critical to achieving this vision and CNVP's success will hinge on how well these interventions are designed and executed. The next section outlines and explores the intervention options available to CNVP.

**Figure 8: MAPs Intervention Vision**



## 2 THE PLAN - How are we going to achieve this?

This section outlines how CNVP is going to achieve its vision of change for the MAPs market system, explaining the key principles which will guide implementation and the range of intervention instruments and options available to the programme.

### 2.1 Guiding Principles

A number of the important principles will guide the design, management and implementation our interventions, the key ones include:

- **Sustainability:** All CNVP interventions will aim to stimulate changes which provide a means for MAPs producers to derive benefits beyond the period of the programme.
- **Facilitation:** Achieving sustainable change requires CNVP to play a facilitative role, acting as an *external* agent stimulating improvements (through the use of various instruments outlined below) in the way in which market actors within the system perform their function.
- **Flexibility:** Market systems are dynamic, changing and shifting as new actors enter the market and new policies and regulations emerge. Having a flexible approach to programming is therefore important. CNVP approach to intervention design and implementation will be a continual process of analysis, implementation, monitoring, learning and adaption.

## 2.2 Intervention Instruments

Intervention in MSD programmes is different from intervention under conventional programmes. It is analysis-led and the tactic used in any given scenario is dependent on the capacity and incentive of the particular partner whose behaviour you are trying to change. The table below gives a typology of intervention tactics and when they might be employed.

**Table 2: MSD Intervention Support Instruments**

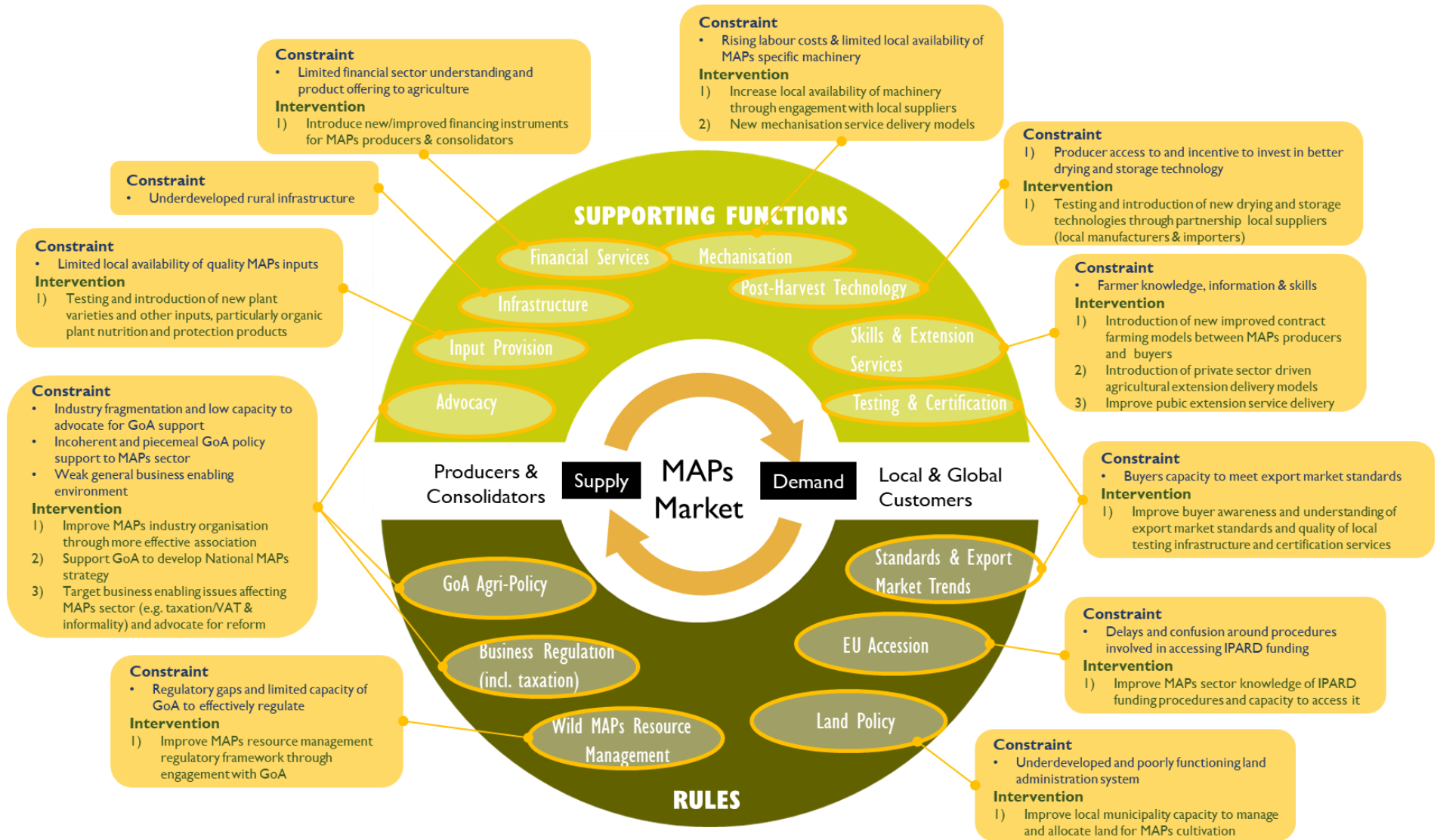
	Tactic	Why use it?
Financial Instruments	(Co)Financing	A partner is likely capital constrained. They have likely explored other options to overcome this financial constraint and have possibly explored options to take out a loan but have not been successful. It is possible that they do seem to respond to financial incentives but do not, at this stage, see the financial incentive and so the grant is used to help the partner to prioritise a given behaviour on the understanding that, if the intervention works as planned, the incentives are in place to continue the behaviour.
	Loan guarantee	Here, incentives are clear, but there is a financial capability problem in terms of an actor’s ability to access finance. Guaranteeing a loan reduces the lender’s risk and should increase the flow of capital.
	Challenge fund	This is an instrument used to generate ideas from the market to respond to a particular challenge. It is best suited to technical rather than structural constraints. In responding to a challenge fund call, actors are responding to their financial incentive in the short term – they are being paid/subsidised for changing their behaviour in a given way. If that is to develop a database or a toilet then great. If it is to improve their business model, then the barrier to them doing so is unlikely to be the absence of a programme call with matched funding.
	Subsidising equipment purchase	This can be used to overcome some financial and intellectual capability problems in the short term. It could be that a firm simply cannot afford a given piece of equipment or that they lack the intellectual capability to source it. Programme intervention can help to overcome these obstacles, but questions must be asked as to the existence of other relevant incentives and capabilities to make the behaviour change sustainable.

Technical Instruments	Technical assistance to market actor	<p>Technical assistance ranges from simply providing the programme analysis to market actors to directly paying for consultants to carry out a given task on behalf of a market actor. If an actor is incentivised by social or power dynamics, then simply raising their awareness of a business opportunity might be sufficient to change their behaviour.</p> <p>The most common form that this technical assistance takes is direct capacity building or training delivered to market actors. This poses challenges in terms of replicability and sustainability.</p> <p>In simple terms, this would seem to address an intellectual capability gap and if all other capabilities and incentives are in place, then it should result in a behaviour change. However, it is often more complicated. If these incentives and other capabilities were clear, then why didn't the actor obtain the technical assistance on their own? Was it a financial capability problem? Was it an intellectual capability problem in knowing what training was needed and where to get it from?</p>
	Convening and dialogue	<p>MSD Programmes have the advantage of an independent vantage point and a sector wide view. The ability to convene actors where the programme believes incentives are shared for a positive behaviour change is the lightest touch and potentially most impactful of the intervention tactics. In holding a dialogue platform, for example, a programme may be able to overcome temporal capability problems (it takes time to coordinate stakeholders) to realise much longer term incentives.</p>
Research Instruments	Direct research and advocacy	<p>An MSD programme's biggest asset is its research, both market research and that resulting from existing interventions, which can be used to encourage behaviour change amongst businesses and policy makers. This clearly overcomes an intellectual weakness among certain actors, after which incentives - which could be financial, temporal, political etc – will be revealed.</p>
	Programme funded experimentation	<p>In some cases, capacities and incentives appear to be aligned for a given set of behaviour changes, but they are not sufficiently strong, given other priorities to actually motivate a behaviour change. In this case, a programme can expedite a given set of behaviour changes by directly paying for something to happen and collecting evidence on the impact.</p>

## 2.3 CNVP MAPs Intervention Opening Portfolio

The preliminary intervention options open to CNVP are summarised in the diagram below. These intervention options are explored in more detail in the section to follow below, emphasising the market actor or actors that CNVP will partner with to improve the performance of the function or rule and the intervention instruments which will be used to stimulate the desired behaviour change.

Figure 9: MAPs Intervention Options Overview



### 2.3.1 Support Functions

The intervention options available to address under-performing support functions include:

#### Skills & Extension Services

The table below outlines a number of potential intervention options to improve the performance of this market function. The first intervention option looks the most promising and involves partnering with buyers to develop their in-house capacity to provide MAPs extension services to producers. CNVP has already identified a number of buyers, particularly Wita Herbs and MEIA, who have existing capacities in this area but more importantly have a strong incentive - linked to the high-quality requirements of their clients in export markets - to have closer working relationships with producers.

The second intervention option is also potentially interesting and focuses on the development of private sector extension service delivery models. Market demand (i.e. the willingness of buyers and farmers to pay for such a service) is uncertain though and this will need to be assessed further. Partnership with the public extension system is the least promising option. The public extension service delivery has larger problems (particularly the funding of the service) which CNVP will not be able to address.

**Table 3: Skills and Extension Services Interventions**

Constraint	Intervention Ideas	Intervention Tactics
Producer knowledge, information & skills gaps	<ul style="list-style-type: none"> <li>Introduction of new improved contract farming models between MAPs producers and buyers</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with select number of MAPs buyers</li> <li>CNVP to provide <i>technical assistance</i> to buyers to develop and/or improve in-house capacity to provide extension services to farmers; and development of appropriate contract arrangements with producers</li> </ul>
	<ul style="list-style-type: none"> <li>Introduction of private sector driven agricultural extension delivery models</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with select number of local service providers</li> <li>CNVP to provide <i>technical assistance</i> to service providers to develop their capacity to provide range of extension services; as well as <i>co-financing</i> to test and develop service delivery model</li> </ul>
	<ul style="list-style-type: none"> <li>Improve public extension service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with public extension providers</li> <li>CNVP to provide <i>technical assistance</i> to build capacity of public service delivery system</li> </ul>

#### Support Function - Post Harvest Technology

Losses, particularly in quality, linked to the use of poor post-harvest practices and technologies was identified as an important constraint in the market analysis. Part of the solution to this problem is increasing the local availability of a range of farm-level storage and drying technologies through partnering with local equipment importers and local manufacturers. As set out in the table below this will involve first testing a number of technologies and then supporting these actors to market and sell the technologies to producers. CNVP has already identified a couple of technologies used in Kosovo which could potentially be introduced in Albania.

**Table 4: Post Harvest Technology Interventions**

Constraint	Intervention Idea	Intervention Tactics
Producer access to and incentive to invest in better drying and storage technology	<ul style="list-style-type: none"> <li>• Testing and introduction of new drying and storage technologies through partnership local suppliers (local manufacturers &amp; importers)</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership with agricultural equipment importers and/or local manufacturers</li> <li>• CNVP to fund <i>experimentation (action research)</i> to assess most appropriate farm-level drying and storage technology; and provide <i>technical assistance and co-finance</i> to equipment importers and/or local manufacturers to develop and test business model to deliver the new technology to farmers</li> </ul>

**Support Function - Finance**

As highlighted in the analysis access to finance is likely to become a bigger issue as the organised cultivation of MAPs increases with the associated increased investment requirements in form of inputs and other support services (e.g. mechanisation). CNVP does have some interesting options to partner with financial services providers to develop new financial products. For example, the increasing trend of more organised out-grower or contract farming arrangements provides a potential opportunity to develop value chain financing instruments. Further analysis and understanding of the financial sector will first be required though to better understanding of the financial sector in Albania will first be required though before initiating any interventions in this area.

**Table 5: Finance Interventions**

Constraint	Intervention Idea	Intervention Tactics
Limited financial sector understanding and product offering to agriculture	<ul style="list-style-type: none"> <li>• Introduce new/improved financing instruments for MAPs producers &amp; consolidators</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership with local financial services providers</li> <li>• CNVP to facilitate <i>dialogue platforms</i> between finance sector and MAPs market actors; provide <i>technical assistance</i> to financial services providers to develop and test new financial products targeting MAPs producers and buyers/processors; and potentially the provision of <i>guarantees</i> to stimulate demand for the new product</li> </ul>

**Support Function - Mechanisation**

Similar to finance the increasing trend towards the organised cultivation of MAPs coupled with rising labour costs in rural areas will increase the demand for mechanisation services in the coming years. The initial analysis has indicated that machinery suitable for MAPs cultivation (planters, weeding machines and harvesters) are generally not available locally in Albania. Local actors interested in accessing this machinery have to import them directly themselves (MEIA for example have imported a range of machines directly from Italy over the past year). This presents a couple of intervention options for CNVP; one potential intervention involves partnering with local machinery importers to increase the range of machinery they offer in Albania; and secondly linked to this is the promotion of new mechanisation service delivery models targeting MAPs cultivators.



**Table 6: Mechanisation Interventions**

Constraint	Intervention Idea	Intervention Tactics
Access to MAPs specific machinery	<ul style="list-style-type: none"> <li>Increase local availability of MAPs specific machinery</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with local machinery importers</li> <li>CNVP to undertake <i>research</i> to better understand machinery demanded by MAPs cultivators; facilitate <i>dialogue platforms</i> between machinery suppliers in international markets and local importers in Albania; and the provision of <i>technical assistance</i> to local machinery importers to build their produce and service offering to the MAPs sector</li> </ul>
	<ul style="list-style-type: none"> <li>Introduction of new and/or improved mechanisation service delivery models targeting MAPs cultivators</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with select number of local mechanisation service providers</li> <li>CNVP to provide <i>technical assistance</i> to service providers to develop their capacity to introduce new mechanisation service delivery models targeting MAPs cultivators; as well as <i>co-financing</i> to test and develop service delivery model, including potentially <i>subsidising machinery purchases</i></li> </ul>

### Support Function - Input Provision

Again, similar to finance and mechanisation the increased organised cultivation of MAPs will lead to increases in demand for a broader range of productivity enhancing inputs, particularly new and improved seed and seedling varieties as well as crop nutrition and protection products, particularly organic products.

**Table 7: Input Provision Interventions**

Constraint	Intervention Idea	Intervention Tactics
Limited local availability of MAPs inputs	<ul style="list-style-type: none"> <li>Testing and introduction of new plant varieties and other inputs, particularly organic plant nutrition and protection products</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with local input suppliers and local distributors</li> <li>CNVP to <i>fund experimentation</i> on new MAP varieties and new plant nutrition and protection products; provide <i>technical assistance</i> to inputs suppliers to develop distribution models to ensure products are accessible to MAPs cultivators</li> </ul>

### Support Function - Advocacy

The market analysis highlighted some important weaknesses in the MAPs enabling environment, particularly limited Government policy support and regulations impacting business performance and incentives. Changing this will require Improving the MAPs sector’s capacity to represent itself and lobby for change and reform. This intervention aims to do this by providing technical assistance to industry associations to strengthen their research and advocacy skills and competencies.

**Table 8: Advocacy Interventions**

Constraint	Intervention Idea	Intervention Tactics
Industry fragmentation and low capacity to advocate for GoA support	<ul style="list-style-type: none"> <li>• Improve MAPs industry organisation and lobbying capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership with MAPs and/or food industry associations</li> <li>• CNVP to facilitate <i>dialogue platforms</i> between MAPs industry actors and GoA; provide <i>technical assistance</i> to industry actors, through associations, to build advocacy capabilities</li> </ul>

**Support Function - Testing and Certification**

Weaknesses in the local phytosanitary testing infrastructure is a challenge for exporter of MAPs, resulting in additional expenses and delays as testing has to be done outside of Albania to verify that they meet clients standards in export markets. Further analysis is required to understand CNVP’s options to address this issue. Addressing gaps in laboratory testing infrastructure will require major investment and is likely not something which is feasible for the programme. Improving the service delivery of local certification service providers such as Albinspekt may be a more promising intervention option. For example, this might involve partnering with a local certification service provider to ensure that MAPs producers involved in contract farming arrangements promoted by CNVP (intervention 1 above) are Global GAP certified.

**Table 9: Testing and Certification Interventions**

Constraint	Intervention Idea	Intervention Tactics
Buyers capacity to meet export market standards	<ul style="list-style-type: none"> <li>• Improve buyer awareness and understanding of export market standards and quality of local testing infrastructure and certification services</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership with certification services providers</li> <li>• CNVP to provide <i>technical assistance</i> to improve certification service delivery</li> </ul>

**Support Function - Infrastructure**

Addressing rural infrastructural weaknesses (particularly the quality and connectivity of roads) is beyond the scope and capacity of CNVP, and intervention options are not considered at this point.

### 2.3.2 Rules

Preliminary intervention ideas targeting improvements and reform of the rules of the game in MAPS market system are outlined in the table below. These interventions follow a similar pattern. On the one hand they involve providing support to Government to build their capacities in certain areas and on the other partnering with the industry to build their capacities to engage more effectively with Government and advocate for reforms and improvements in the operating environment.

**Table 10: MAPs Rules Interventions**

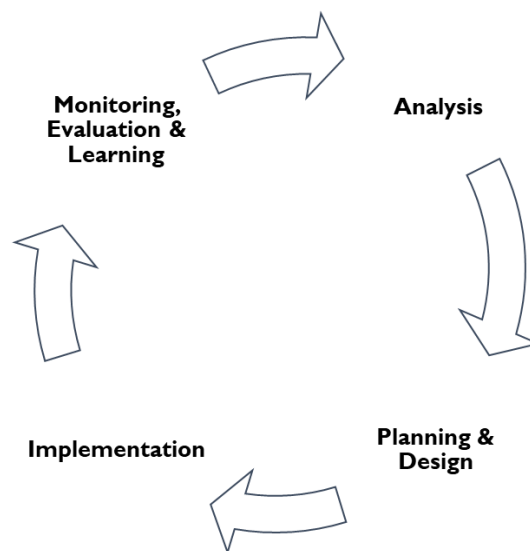
Constraint	Intervention Ideas	Intervention Tactics
Incoherent and piecemeal GoA policy support to MAPs sector	<ul style="list-style-type: none"> <li>Development of National MAPs strategy &amp; advocate for policy support for MAPs</li> </ul>	<ul style="list-style-type: none"> <li>CNVP to provide <i>technical assistance</i> to Ministry of MARDWA to develop national MAPs strategy;</li> <li>CNVP to facilitate <i>dialogue platforms</i> between MAPs industry actors and MARDWA; provide <i>technical assistance</i> to industry actors, through associations, to build advocacy capabilities the industry (see intervention 9 above)</li> </ul>
Regulatory gaps and limited ability of GoA to effectively regulate	<ul style="list-style-type: none"> <li>Improve MAPs resource management regulatory framework through engagement with GoA</li> </ul>	<ul style="list-style-type: none"> <li>CNVP to provide <i>technical assistance</i> to MAFWE and local management authorities to address regulatory gaps and build regulatory implementation capacities</li> </ul>
Weak general business enabling environment	<ul style="list-style-type: none"> <li>Target business enabling issues affecting MAPs sector (e.g. taxation/VAT &amp; informality) and advocate for reform</li> </ul>	<ul style="list-style-type: none"> <li>CNVP to <i>fund research</i> on impact of business enabling environment issues on development of MAPs sector; and <i>technical assistance</i> to industry associations to effectively advocate for reform</li> </ul>
Delays and confusion around procedures involved in IPARD funding	<ul style="list-style-type: none"> <li>Improve MAPs sector knowledge of IPARD funding procedures and capacity to access it</li> </ul>	<ul style="list-style-type: none"> <li>CNVP to facilitate <i>dialogue platforms</i> between MAPs industry actors IPARD funding coordination agencies; provide <i>technical assistance</i> to MAPs industry actors to complete funding applications</li> </ul>
Underdeveloped and poorly functioning land administration system	<ul style="list-style-type: none"> <li>Improve local municipality capacity to manage and allocate land for MAPs cultivation</li> </ul>	<ul style="list-style-type: none"> <li>CNVP to provide <i>technical assistance</i> to local municipalities to improve land management capabilities</li> </ul>

### 3 INTERVENTION MANAGEMENT

As emphasised in the previous section the dynamic nature of markets requires an adaptive and learning programme and intervention cycle - the process of identifying and managing interventions is an iterative one involving continuous planning, piloting and monitoring. From the intervention options outlined in the previous section for instance it's clear that some of these intervention ideas are more clearly defined than others and can be launched in the pilot years whilst others require more research and analysis before considering moving into a full pilot. This is discussed in more detail a bit further below.

CNVP will create a learning driven process driven by availability of evidence (e.g. where programme decisions are based on high quality evidence and research, and where evidence is used to constantly improve our understanding of what works) and creating mechanism for continuous feedback and reflection by team members (e.g. frequent meetings of programme decision makers and reviewing opportunities adapt, scale or even close interventions).

**Figure 10: CNVP Monitoring Evaluation & Learning Cycle**



#### 3.1 Monitoring & Results Measurement

Having effective monitoring and results measurement (MRM) systems and procedures is important to generate the data to understand the impact of interventions and inform programme learning and adaptation.

CNVP's MRM system will be built around *intervention guides* for each of the programme's interventions. These intervention guides will include the following:

- A results chain illustrating the individual intervention strategy, the intermediate changes (outputs and outcomes) expected at the different stages of the intervention, and the specific sequence of activities required to bring about these changes (see Figure 11 below)
- A plan for systemic change, explaining how the practice change or innovation being introduced will endure and eventually be taken on by other market players, increasing the scale and outreach of the intervention. The MSD Systemic Change or Adopt Adapt Expand Respond (AAER) Framework (see Figure 12 below) can be used to think through and illustrate the intervention's pathway towards systemic change
- A set of set qualitative and quantitative indicators of change and targets/projections for each stage of the results chain which will allow us to track and monitor progress
- A work plan detailing the sub-tasks for each activity
- A measurement plan explaining when and how each indicator will be monitored, and who is responsible for collecting data, including baseline data
- A mechanism for capturing learning and for feeding that knowledge back to inform decision-making

Figure 11: Illustrative Results Chain Structure

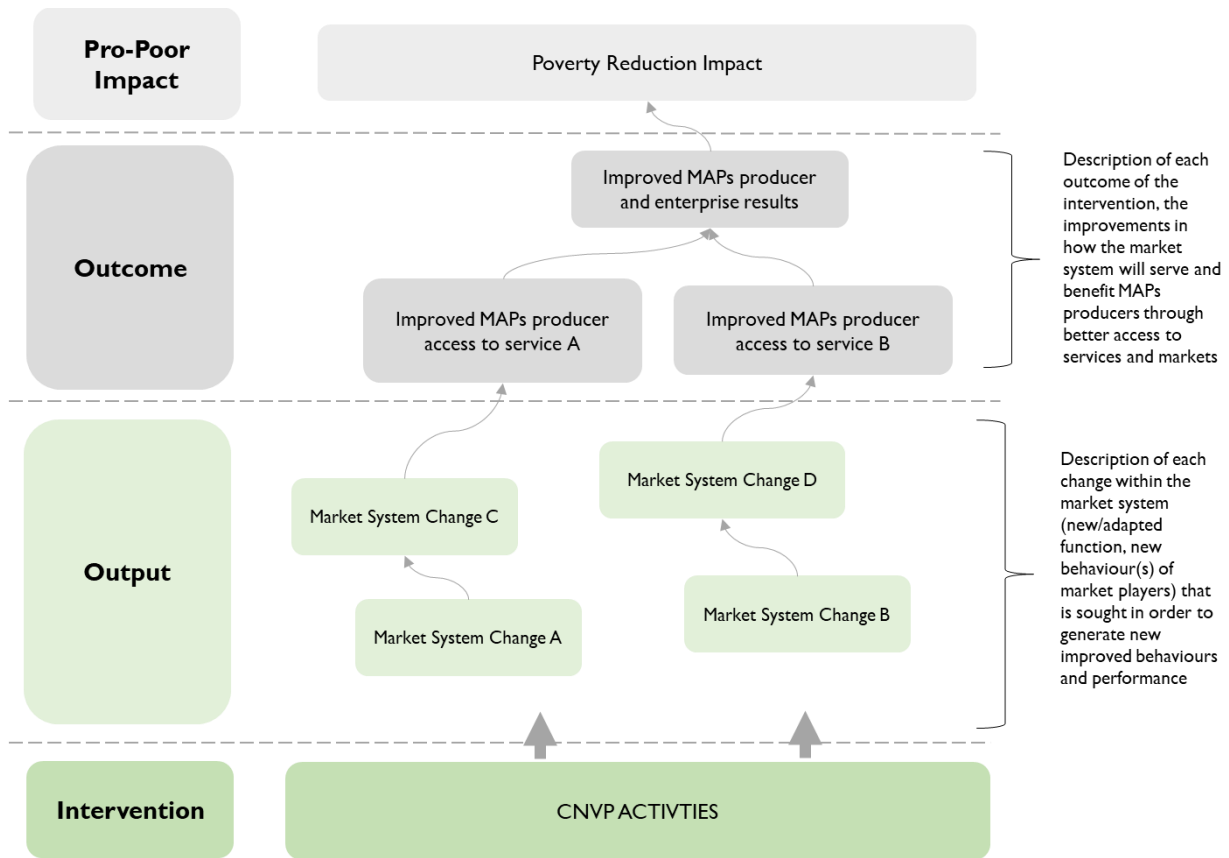
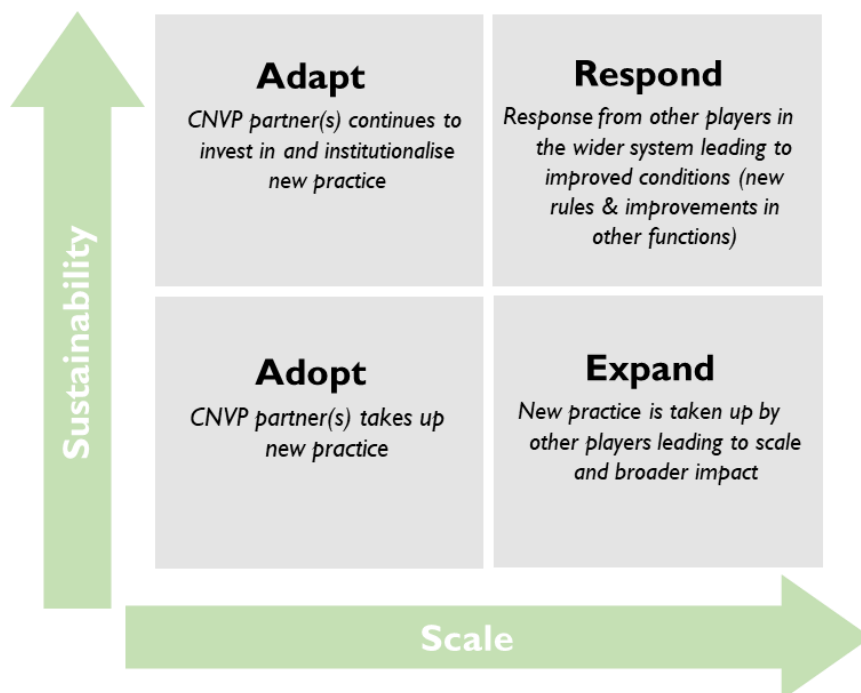


Figure 12: Systemic Change Framework



### 3.2 Prioritising Interventions for Year 1

Section 2 above outlined an array of potential intervention options. These interventions cannot all be launched simultaneously; the sequencing and prioritisation of interventions is therefore important. This will depend on a couple of factors: firstly, how well developed the intervention idea or concept is; and secondly the availability of willing and able partner market actors. It’s also important to be realistic about how much the programme can take on given its resources. As already mentioned above some intervention ideas are clearer than others at this stage and potential partners have already been identified. Based on this the table below outlines CNVP’s plan for the sequencing of the current portfolio of interventions options<sup>46</sup>. The rows shaded in green are the interventions which will be formally launched in year 1, the others highlighted in orange are interventions which will come on board after the pilot year<sup>47</sup>. Overall, it is expected that five interventions will be fully launched in the first year.

**Table 11: Sequencing of Interventions**

Intervention	Pilot Year 1	Year 2 +
• Introduction of new improved contract farming models between MAPs producers and buyers	Agree partnerships with up to 4 MAPs buyers/processors	Monitoring, learning and adaption
• Introduction of private sector driven agricultural extension delivery models	Agree partnerships with up to 10 service providers	Monitoring, learning and adaption
• Improve public extension service delivery	Engagement with GoA and development of intervention concept	Potentially launch intervention
• Testing and introduction of new drying and storage technologies through partnership local suppliers (local manufacturers & importers)	Agree partnerships with up to 5 machinery importers and/or manufacturers and launch Action Research	Monitoring, learning and adaption
• Introduce new/improved financing instruments for MAPs producers & consolidators	Further research and analysis to inform development of intervention concept	Potentially launch intervention
• Increase local availability of MAPs specific machinery	Further research and analysis to inform development of intervention concept	Potentially launch intervention
• Introduction of new and/or improved mechanisation service delivery models targeting MAPs cultivators	Further research and analysis to inform development of intervention concept	Potentially launch intervention

<sup>46</sup> Note that this is a preliminary list of intervention options based on the initial market analysis. Given the iterative nature of the programme this pipeline of interventions will continue to change and evolve as the programme progresses.

<sup>47</sup> ‘Formally launching’ an intervention means that a partnership agreement has been signed with a market actor to test or pilot a new or improved business model.

<ul style="list-style-type: none"> <li>• <b>Testing and introduction of new plant varieties and other inputs, particularly organic plant nutrition and protection products</b></li> </ul>	<p>Agree partnerships with up to 5 input suppliers and/or buyers/processors and launch Action Research</p>	<p>Monitoring, learning and adaption</p>
<ul style="list-style-type: none"> <li>• <b>Improve MAPs industry organisation and lobbying capabilities</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Improve buyer awareness and understanding of export market standards and quality of local testing infrastructure and certification services</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Development of National MAPs strategy</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Advocate for more and improved policy support to MAPs sector</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Improve MAPs resource management regulatory framework through engagement with GoA</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Target business enabling issues affecting MAPs sector (e.g. taxation/VAT &amp; informality) and advocate for reform</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Improve MAPs sector knowledge of IPART funding procedures and capacity to access it</b></li> </ul>	<p>Further research and analysis to inform development of intervention concept</p>	<p>Potentially launch intervention</p>
<ul style="list-style-type: none"> <li>• <b>Improve local municipality capacity to manage and allocate land for MAPs cultivation</b></li> </ul>	<p>Agree partnership with up to 4 local municipalities</p>	<p>Monitoring, learning and adaption</p>

## ANNEX 1: MINI CASE STUDIES

### Case Study 1: Mediterranean Export-Import Albania (MEIA) Essential Oils

Many exporters use distillation to process the waste (remaining of other processes such as cleaning and grinding) to produce essential oils. In rare cases, such as MEIA Ltd essential oil production is the main activity of the company. During 2018, the company collected processed and exported around USD\$2m of essential oil produced from MAPs cultivated in Koplik, region of Malesia e Madhe, Petrele and Shengjergj region of Tirana. MEIA's main export markets are the USA, Canada and Australia.

The company owns two large warehouses, one in Petrele, Tirana and another one in Malesia e Madhe. The two facilities are equipped with processing lines for the distillation of essential oils. MAPs are in large part cultivated in the area of Koplik and Petrele. Just nearby the new under construction warehouse in Koplik, there are 70 hectares of Helichrisium and other MAPs (lavender, laurus nobilis and chamomile). The company uses the state-of-the-art farming technology for land preparation, weed removal and harvesting. Mechanization increases efficiency by reducing labor costs. Raw materials are stocked for a very short period of time in the warehouses reducing cost and increasing the productivity of fix assets. All raw materials are quickly distilled, and essential oils produced shipped via air cargo to USA. A bar coding system allows traceability of product indicating origin and supplier.

This business model adopted by the company allow to be very competitive compared to other players in the market. Essential oils have higher profit margins. As a result, the company can pay higher prices for more than 300-400 reliable farmers. The company aims to increase its production by diversifying farming and production of essential oil. One of the objectives is to have more the 1200 hectares under cultivation. While the area of Koplik remains the main basket for raw materials, Petrele village and other surrounding areas are considered for some varieties of MAPs.

### Case Study 2: "Reci Prodhimtar" Cooperative

"Reci Prodhimtar" Cooperative, established as an informal group in 2004, consists of around 80 members and lead by 5 local farmers and processors, is a one of the few initiatives in Albania to organize producers in cooperatives. All members of this group of farmers live and operate in the area of Rec, Qafe Grade and Repisht.

The main sources of income for families in this area are MAPs, chestnuts and milk production. Many farmers are cultivating different varieties of MAPs particularly sage, helichrysum and lavender in an area where cultivation of other crops is quite challenging due to poor land quality. Also, some families living in the mountainous part of the village and neighboring area are collecting wild MAPs. In addition to MAPs collection and cultivation, the area of Rec is renowned for the production of chestnuts - there are 350 hectares of chestnut forest with around 33, 000 trees. Furthermore, during the last four to five years different farmers have planted new, more intensive chestnuts plantations through grafting. The Cooperative has succeeded in selling more than 200 MTs of chestnuts over the past year despite the fact that production yields and quality was not satisfying.

The Cooperative's members own one warehouse, a processing lines for chestnut cleaning and calibration, drying racks for MAPs and some other equipment. However, mechanisation at farm level is lacking almost completely. Many other projects have strengthened capacities of this farmers' group through trainings and business development initiatives. Recently Sonnentor, in partnership with GIZ, has supported the creation of organic MAPs production. The Cooperative has now signed a contract with Sonnentor for wild-grown MAPs, offering prices 50% higher than the conventional market, However, a price drop for the main cultivated varieties of MAPs, sage, helichrysum and lavender, has impacted the income of the Cooperative members. Diversification of MAP production, the creation of a nursery for seedling productions and mechanization are key future objectives for the Cooperative and its members.