

Thinking strategically-thinking green: Albanian economy case

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***Abstract.** Surprisingly, the catalytic function of Albanian banking system hasn't deeply penetrated in the country economic concerns... By this way during the last twenty years the lending activity is focused on the economic sectors which provide high returns in short-term periods such as construction, manufacture, trade, etc as well as bear the brunt of environmental pollution. Thus, in this paper is emphasized the nowadays importance of being projected on green activities aiming an effective approach to the future country development phase. Trying to approach the latest, the paper describes the main areas where green interventions must be done in order to save the environment and contemporary reduce as much as possible the air and water pollution, land damages from commercial constructions in touristic areas, wood structure change, etc by favoring the establishment of recycling opportunities. All this gives a new dimension of making business in the country in accordance with environmental standards set worldwide that helps the exploration of the Albanian economy based on respective natural resources, energetic, touristic and agricultural capabilities. By referring to other country experiences as well as from the sporadic green projects and agriculture development results related to nonperforming loans ratio the key success factor seem to be the establishment of green banks. Similar experiences can act more closely with individuals, businesses, organizations, institutions and government aspirations under an environmental and ethical context. The paper recommends the agriculture development within the country as the hotspot, which can solve lots of previously mentioned environmental issues currently faced and also helps in reducing the poverty in rural areas. Beyond this, through the designation of tailored green lending products other important paths can be opened toward further country economic development. In light of this, the paper concludes that the measures needed to be implemented aiming the existing banks switch into green standards or the inflow of international green banks are: tax facilities in term of yearly profit and dividends distribution, the establishment of environmental educational programs in schools and designation of*

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legal reforms in focus the economic priorities and environmental care. Decidedly, a green projected system in the country can unveil new standards by transforming its current weaknesses in future success.

Keywords: green banking; economic sustainability; agriculture development.

Introduction

Despite the fact that, as of today the per capita incomes in Albania are more than quadrupled during last two decades (even in high fluctuation conditions see Figure 1), the Albanian GDP growth rate is slowly decreased starting from 2008.

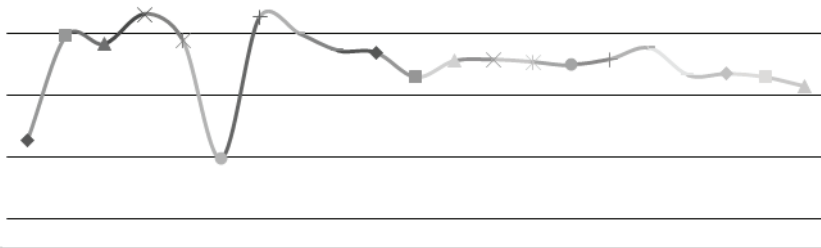


Figure 1. The GDP growth trend in Albania during last two decades (World Bank Data)

The latest due to global financial crisis especially derived from neighborhood: Italian and Greek crises, and the country is still considered poor as per Western European standards. But as argued from Todri (2012, p. 51) the main factors that positively impacted on the country GDP growth rate are “the foreign direct investments and trade relations with European countries in previous years without skipping the impact of remittances from the Albanian workers”. Referring to the INSTAT data for the year 2012, the above-mentioned foreign direct investments are represented mainly from manufacture, financial intermediation, transport and telecommunication, trade, informatics, etc. While as per historical INSTAT data other important factors that significantly contributed on GDP growth rate during the last two decades are the services within 49.4% followed by industry 19.97%, construction 17.18% and agriculture

13.45%. It should also be mentioned that the informal economy is the main factor that negatively impacts the Albanian economy by representing above 40% of it.

In general, it should be admitted that even while the Albanian economy has shown a gradual improvement due to infrastructure development, tax collection and law reforms, etc a lots of remains to be done in respect of environmental care, health management, biodiversity conservation, etc. Because the country's economic development strategy wasn't sustained from strict environmental standards by considering here also the environmental abuse from foreign as well as from national entrepreneurs. By this way as per Environmental Evaluation Report 2012 elaborated from Agriculture Ministry the main pollution in Albania refer to:

- *air pollution*, which poses serious health risks to country habitants, as actually the air quality level for Tirana, Elbasan, Fier and Fushëkruja is more than twice in excess in comparison with World Health Organization Air Quality Standards. And each year are estimated 500 deaths per city attributed to this. The latest reason but not the only one is the dramatic increase in the number of cars, and especially the number of old vehicles in use, traffic in urban areas. From the other side the rapid urbanization and associated major increase in residential and commercial building construction significantly contribute to air pollution, together with the current bad condition of streets and roads within urban areas. The waste burning is another phenomenon that continuously impacts the air quality due to the fact that municipalities haven't implemented yet alternative solutions. Also the industrial concessions' soot delivered as the major part still use the old factories constructed in communist period.

-*water pollution* is another risk factor which impacts the Albanians lives due to its usage in agriculture products as the water supply infrastructure in general is inadequate and poorly maintained. Together with a lack of metering and operational control, this results in significant water losses, estimated to be over 60 per cent in all cities. In addition, insufficient storage capacities and frequent cuts in electricity mean that water supply in urban areas is intermittent. Moreover, in the same areas sometimes due to

illegal constructions the drinkable water channels join the sewerage. Thus, about 40 per cent of the urban population has a distinct sewer connection.

In rural areas, only a small proportion of the areas with piped water supply is equipped with sewer networks. All industrial activities located near rivers discharge wastewater directly without pre-treatment. And the worst is that, in locations with access in lake or sea the major flowing sewage is discharge there by affecting also tourism areas as well as the aquatic flora and fauna. Because only the municipalities of Kavaja and Pogradec have an operational treatment facility for the wastewater while in cities like Lezha, Vlora, Korça, Saranda, Durres, Shkodra, etc it is under construction or improvement phase. Even in cities the municipal waste management systems aren't well managed and in lots of rural areas they aren't present. So the urban waste is disposed in unauthorized areas and along roads. Should be highlighted that also exists sites designated for disposal of municipal solid water waste that aren't well managed due to the lack of necessary infrastructure or engineering provisions. The extensive use of chemical fertilizers and pesticides in agriculture are other determinants of water pollution. In addition the pollution leads to a deterioration of groundwater quality, especially in low-lying areas, where most of the population lives and most industrial and agricultural activities take place.

-Sanitation is a long-standing problem in the country. As mentioned due to the poor state of existing sewage collection and treatment systems poses a risk of contamination to both drinking water and soil. There is a significant burden of ill-health associated with these water pollution risks. The levels of shigellosis and typhoid fever are still high in Albania during the year's seasons.

-Forest accessibility has been significantly degraded through overharvesting and overgrazing which also caused the changed of forest age structure through species composition and reduced the forest under wood. Trees filling for heating, cooking, trade, and construction purposes as well as the fires induced by human being or climacteric conditions are threatening the forest ecosystems. The abusive practices are largely extent as there were charged the communal bodies to give construction permissions. In any

case, their intensity will probably decrease in the future due to the ongoing depopulation of rural areas and decreasing demand for firewood.

- *protected areas* due to the species habitat and conservation are increased during the years but a lot of them have also disappeared. Together all the upper conditions impact on the species habitat independently from the fact that we are going to enlarge the protected area surface or just strictly protect them.

And together all the environmental issues can affect:

- a) the climate change;
- b) the river flows;
- c) and tourism which is going to be highly promoted from government and other local agents which have invested in the field.

So, the future country development should take under consideration immediately remediation possibilities in order to fight the environmental pollution and degradation by promoting green activities. Hereinafter are explored the challenges that Albanian economy should enhance in order to meet the standards of an effective growth through a proactive management of environmental issues derived from its economic sectors.

Challenges toward green opportunities in Albania

The Albania's rapid economic development after the fall of communist regime doesn't promise anymore the same growth rate referring to different circumstances such as : economic, political, financial and environmental. Trying to approach the latest, this section describes the main areas where green interventions must be done in order to save the environment and contemporary reduce as much as possible the air and water pollution, land damages from commercial constructions in touristic areas, wood structure change, etc by favouring the establishment of recycling opportunities and aiming the transition into a green economy for a sustainable development in the future. That's why the establishment of green banks in Albania is considered relevant not only under the business context but primarily for the solution of vital concerns.

Initially, worth mentioned that some sporadic initiatives oriented toward green opportunities are handled from international companies branches established in Albanian such as: Coca-Cola, Vodafone, etc. Voluntarily they are involved in forestry building and care. The same is done from some international banking group's affiliates operating in the country years ago with the plant of trees in different roads. But this isn't enough.

The other countries experiences initiated from government show that green economy results constituted the leverage for boosting them during low GDP growth or recession periods. That's why the binom "business-government" should be focus on finding and promoting activities by implementing multi-sectoral interventions targeted toward the environmental sustainability and friendly green businesses prosperity. Dedicated initiatives are actually missing in Albania but they should be further developed in order to mitigate all the issues mentioned previously.

Starting with the *manufacturing sector*, which represents the major part of foreign direct investments in Albania by also being the main beneficiary of electricity usage as well as responsible for a high quantity of CO₂ emission in environment due to the primary resources extraction and elaboration it directly impacts the GDP growth and the human health. Thus, by improving the recovery and recycling processes as explained by Mohanty et al. (2002) through respective cycles adaption can help the manufactured goods extension and the sector growth without affecting the environment. Because as proposed from Mohanty et al. (2002) the usage of renewable, recyclable, sustainable, triggered biodegradable materials reduce the carbon dioxide emission in the environment thanks of the photosynthesis process, which transforms the composites in renewable resources, and vice –versa.

For this purposes the remanufacturing can be used and a lot of oil can be saved. Another way that can be proposed to it refers to the sustainable products practices management by co- integrating the products in order to save time and expenses. Michaels et al (2009 p.10) basically considers that "these direct and indirect effects on job creation are the most significant reason why the green investment stimulus program creates more jobs than a household-consumption stimulus". In other words, the environmental reorganization can increase not only the investment returns but also gives

additional opportunities in terms of technological and innovative ideas by creating job opportunities for the Albanian community. Appropriately this means resizing the business on behalf of resources use, environmental care and economic reality by evaluating the potential opportunities in order to sustain future financial projects under a multi-dimensional and environmental defensive approach.

But the investments require a lot of changes especially in resource efficiency, investment in clean technologies, the development of alternative products, services and materials as well as the ability to obtain value from unavoidable waste. And to do all this should be implemented a different governance model, enhanced the management processes and developed the measurement and reporting standard in respect of accounting complexities in accordance with Morrissey et al (2004) proposal. Meaning that, in order to assess and follow-up a sustainable waste management model implemented in a certain country should be taken into consideration three main factors such as: legal framework, local conditions, economic and socio-economic aspects which further complicates the management system.

In respect of food and beverage industry, aiming the agricultural production and processing, food production and distribution, retail and catering chains the challenge as argued from Guthrie et al. (2008) should report related to these issues: overfishing, high meat consumption, environmental degradation, health, resource and energy use, water, waste, worker rights.

Pertaining to the extractives mining of minerals, metals, oil and gas the main issues refer to the environmental degradation, water and energy use, even when the host community benefits including employment, revenues and taxes. For these reasons by referring to Hámor (2004) the Albanian government should review the legislative aspect aiming an appropriate shift in the resources price structure, the increase of energy efficiency and life-cycle of resources as well as the waste management.

From the other side the above mentioned legislative review will contemporary favor the establishment of green banks in the country as well as the exploration of green dimension from the banks pertaining

to Albanian market and their further development in respect of below mentioned circumstances which can be treated as their current and future business opportunities.

Transport (air, rail, shipping, road vehicles) management is another important field that should be considered into green transition. The issues to take care refer to: environmental degradation, land usage, emissions, fuels and road infrastructure safety. As envisaged from Meyer (1998) in order to help the transition should be developed lighter vehicles, increase the emphasis on collective and intermodal travel contemporary with technology in order to reduce the environmental impact and the noises. And contemporary with the government new legislative aspects only the green banks activity within the country can appropriately support the transport development in full compliance with environmental, health and new economic standards set.

Trade focus on organic foods, drinks, social, cultural and environmental products can help the countries to integrate environmental considerations into economic & trade policies by accounting for multilateral trade and climatic conditions as well as products diversification on behalf of Mæstad (1998).

Tourism management and promotion pertaining to lodging, recreation, restaurants and bars, events, services, culture, tours and excursions should deal with environmental degradation, socio-economic development, heritage and culture. A proactive manner to do so in green way is to collectively manage resources between public and private partners and improve the valuation of heritage and culture by initially using Font's et al (2001) agenda.

Construction and urban areas management, more attention should be paid on construction permits given aiming a better management of the areas in & out side cities. Thus, legal reforms should be implemented by reconsidering the functionality and environment care through detailed construction plans. This means that constructions should need the help of urban architects in order to better adopt the spaces with ethical and

environmental standards attempting to pursue Colding et al. (2006) results and be prepared for a better future development.

Concessions agreements signed with the industrial partners by requiring new investments in case of old technological standards, or appropriate technologies to act on behalf of environmental care as well as major salaries, health care and lower working hours for the respective employees.

Another important step that should be implemented immediately is the differentiated waste collection by imposing the people to respect the nature and differentially collect. These initiatives should be immediately undertaken from communal and municipal instances through the purchase of distinctive waste containers and trash trucks. In addition Chattopadhyay et al. (2005, p. 357) suggests that “tax increment financing by the local government is a feasible option to fund cleanup”.

However *tax facilities* should be implemented for the businesses that have as main activity the waste elaboration not only related to the yearly results but also to the space, publicity, etc. Worth mentioned that similar activities should be undertaken from municipalities aiming not only the better environmental management but also the profitability as they firstly deal with these kinds of issues.

Obviously as described from McNabb (2005) public *utilities management* should be considered in every single stage while shifting to green economy in respect of: emissions, nuclear power, water usage and waste disposal. Focusing on demand management, efficiencies increase, the development of renewable technologies at all scales must be a priority by also taking care of pricing structure and waste resources reuse, recycling and energy recovery from waste.

Green banking perspective

For the time being green banking stands for a different concept in the Albanian banking system. Actually the banks pertaining to the Albanian banking system are mainly focused on investing in high return activities

by firstly dealing with the risk management standards as argued from Scalera et al. (2012). Nevertheless, the statistics show that the volume of nonperforming loans is increased.

Meanwhile, green banking promotes green activities by changing also the customer's attitudes toward the environment and not only by contemporary contributing in the country's future economic development.

They are totally normal banks that have different topics (compared with the commercial or investment ones) in agenda such as:

- Creating awareness about green communication (to employees, customers, public institutions);
- Friendly operations and technological improvements;
- Designing and launching green products (by promoting environmentally responsible lending and investments).

Thus, they can act through agencies/affiliations or even on-line but in any case their aim is to earn profits by improving the business future as well as the bank's assets quality through:

a. Nature and Environment projects in the field of renewable energy (wind energy & hydro-electric projects), organic agriculture across the entire value chain including healthy food shops and environment technology like recycling companies and nature conservation projects;

b. Culture and Welfare loan purposes, granted to artists and organizations actively involved in education, healthcare or aid to people with physical and learning disabilities as all these enterprises have a clear, people-centered policy;

c. Social Businesses, through loans granted to traditional businesses, innovative enterprises and service providers with clear social goals, including financing of start-up enterprises, fair trade businesses and micro finance institutions and providing basic financial services for people in the developing areas.

In any case, they use as credentials: knowledge, capital and energy which enable the solution of a lot of problems and they feel almost responsible to contribute on this such as: HSBC Bank, State bank of India, PNC Bank, etc.

Green sustainability

Mainly green banks undertake green and social activities in the countries where are located or even finance governmental, municipal and international projects by giving the sound example to the customers as well as preserving the brand identity and reputation.

In any case they act according the following three principles:

- tend to substantially expand their concept of return including the social and ecological added-value of their activities;
- include internal rules and systems that comply with ethical criteria;
- understand and accept their responsibility in handling money-streams and invest them responsibly.

Acting by this way the banks can almost enhance the competition between them through the ongoing offer of convenient products and services to businesses and population.

This translates into a continuous investment and strong relationship with the customers target group in order to respond on time and more efficiently as possible to respective demands and build with them a better future.

The present and potential future of green activities in Albania

Albanian economy represents a rural economy as agriculture is the second largest sector (20% of GDP) and employs more than half of active labour force. But the lending activity pertaining to agriculture, hunting and forestry together constitutes only 1.2% of total amount granted in the economy during the year 2013. By referring to the historical evolution (see Figure 2) and current situation worth mentioned that it requires huge investments (related to farmers, hicks, cultivators, etc, for special borrowing requirements and technological instruments necessary for

the improvement of agriculture companies production and profitable performance) in order to make it fully operational and compliant with the European standards as exits a large surface appropriate for agriculture development.

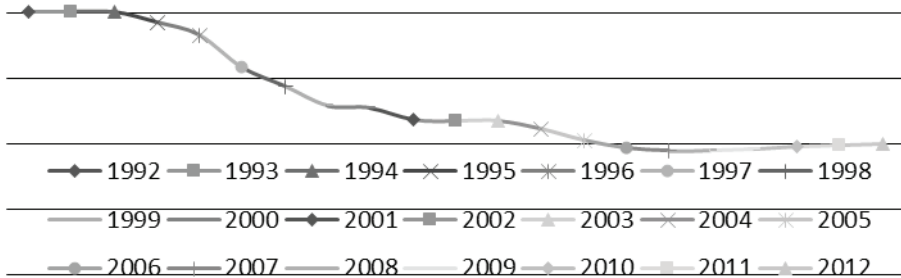


Figure 2. Agriculture trend in Albania during last two decades (INSTAT Data)

But in contrast, it hasn't a large access in banking sector in terms of lending products and services dedicated to agriculture due to:

- Climatic risk (which is not appropriately measured from banks);
- Lack of collaterals (meaning the propriety title for the infrastructures and lands used);
- Lack of documents and experience in financial management fields;
- Long-term returns as per production cycle;
- Lack of agri-insurance schemes;
- Lack of marketing knowledge in the sector within the country.

In most of cases agriculture needs working capital in order to manage the cash-flow during the planting period while long terms funding is required for investments in warehouses, technological equipments for harvesting, collection and processing of products. The latest also encourages the chemical fertilizers export based on production bio-standards by positively impacting the life tenor of people involved in agriculture and significantly alleviates the poverty in rural and agriculture areas.

The also called “agribusiness” is one of the main focuses of Procredit Bank which has established dedicated structures in advice, evaluation, monitoring and collection process in farming, agriculture, orchards, vineyards, poultry, agricultural processing and agricultural mechanics, etc.

The novelty in the field is that:

- start-up loans are offered for the farm entrepreneurs;
- alternative loans are offered for consolidated agri-businesses with specific investment plans (without requiring almost high collateral coverage ratio);
- management relations are handled for the agri-clients between ProCredit International agencies in support of new markets development.

Contemporary, Procredit bank is the pioneer in exploring the “Green Loans’ which enables individual, businesses, farming and livestock activities to lower energy costs, protect the environment, and make the best use of natural resources through financing some equipments with the appropriate technology which save energy.

Organic food and fishing is an alternative investment channel thanks to high nutritional values that our national products have, thus they can expand the export opportunities in different countries worldwide. The banks should consider the financing in schools which have in their program the healthy nutrition and forestry care by targeting two crucial elements toward the environment safety:

- a. Eat and consequently demand organic food;
- b. Take care of the environment and invest on it aiming to protect the respective flora, fauna and its organic qualities.

From the other side Albania needs immediately to recycle: glass, plastics, waste, etc but similar initiatives can be financed only on a green banking prospective.

Additionally, the banks could exploit the country capacities such as: water, mineral resources through investments in environmental projects. Mining

and quarrying as industrial branches are important for the development of the country and they also attract the attention of foreign investors.

Spa with their curative values in Elbasan and Peshkopia represents an attribute for the rural areas economic growth and green banks can effort them by making a pleasant reality toward tourism development.

Other new tourism form such as Eco-tourism reflect a totally unexplored dimension of the Albanian economy that can be raised in Butrint, Berat, Gjirokaster, Kruja, Lezha, Pogradec, Lura National Park, Patok and particularly in the lagoons of Karavasta and Narta. In the same context can be expanded the mountain tourism in rural alps such in the areas of Theth, Valbona and Vermosh, etc.

So, it conveys innovation and special interest from all visitors and further green development for these virgin areas.

On the green light of these banks development the most important responsibility to be undertaken remains their strategic alignment on activities that support and expand the environmental safety by performing in steady financial performance and contribute on country economic growth.

Conclusions

In order to come to the aid of the Albanian economy by appropriately responding to the environmental disaster related to: air and water pollution, sanitation in rural areas, forestry damages is more than necessary the development of green funding projects oriented in manufacture sector, transport, tourism management and promotion, organic trade, construction in urban and rural areas, high-tech industrial investments and utilities management in order to save the environment and support additional economic growth opportunities.

All this means that the banks operating in Albania should be immediately focus on green lending products in coherence with national development

strategy implemented from Ministry of Agriculture, Rural Development and Water Administration and other green banks are welcomed to join the financial sector.

As mentioned, the first step can be undertaken in agri-business referring to the country premises, and second it will be supported from the previously mentioned national strategy through the:

- allocation of agriculture grants in unexplored areas;
- equipment with propriety certificates for the lands used for agriculture purposes;
- establishment of guarantee funds for managing potential risks faced from agriculture;
- implementation of land insurance schemes;
- closure of the cooperation agriculture agreements with foreign direct investments;
- use of European union agriculture development funds IPARD-like pertaining to our pre-association phase.

The investments in agriculture spontaneously can help the entrepreneurs to better manage and save the environment oriented toward: healthy and organic food trade, technological transport by avoiding the air pollution, utilities-resources management aiming the agriculture expansion and energy provisioning, forestry management and expansion for touristic and business purposes, new ecological constructions in accordance with climacteric conditions and worldwide environmental standards. That's why the Albanian Agriculture Ministry responsibility is enlarged also in rural and water management.

It is worth mentioned that actually the nonperforming loans pertaining to agriculture sector represent only 6% of the amount granted which is the lowest ratio compared with other economic sectors (above 25%). This is related also to agriculture growth results for the last quarter of the year 2013 which were quite good by marking an average growth of 2.9%, mainly focused on agri-business products as they represent a consolidate and formalized marked segment.

Undoubtedly, that the green banks acting accordingly their strategic lines can promote the country agriculture development in the future by designing eco-friendly products and services for customers almost where their needs become more and more green....

But what should be done in order to make attractive the being green beyond the potential economic factor? Under business context tax facilities (lower taxes in terms of yearly profit and lack of taxes as per dividends distribution) should be implemented to green businesses and banks as the latest apply lower interest rates per loan products compared with the commercial banks. Contemporary this influences the stakeholder decision to invest more and more in green activities. Another factor that should be mentioned is the interest of all the actors in environment under customers and entrepreneurs' quality and their efforts and fight in a better life quality. And finally what prevails the sustainability of green cycle in a certain economy is the legal factor designed by responsible authorities within the country in coherence with energetic, educational, economic and development priorities.

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