Albania Investment Council

Improving Transparency and Investment Climate

CHALLENGES OF SMEs[1] DURING THE TRANSITION TO ALTERNATIVE ENERGY SOURCES

Tirana, January 2023

1 SMEs, according to Law 43/2022 "On the Development of Micro, Small and Medium-sized Enterprises", are all enterprises that employ less than 250 people and realize a business figure or a total annual balance not greater than 250 million ALL.

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This working document was prepared in the framework of the Meeting XXIX of the Investment Council (31 January 2023) by the Secretariat of the Investment Council.
The analysis was the outcome of a close cooperation of its internal expert, Mr Elvis Zerva, Legal and Regulatory Expert, Ms Elida Fara, Economic Expert, Ms Xaira Shurdha, Monitoring and Liaison Expert, and external experts, Mr Sokol Spahiu, Mr Ledjon Shahini, and Martin Serreqi, who have essentially contributed with their expertise to the technical aspects of the analysis and its pillars. The overall teamwork was led by the Head of the Secretariat, Ms Diana Leka (Angoni) and benefited from the support of Ms Elisa Lula, Administrative and Communication Officer at the Secretariat, in proofreading the material.
We thank for the valuable contribution in facilitating face-to-face and focus group meetings with private companies, business associations and chambers of commerce (Auleda Vlora, CCI Durrës, Union of Albanian Producers, Women's Economic Chamber) and the Municipality of Korça, and also the public institutions (Ministry of Infrastructure and Energy, National Agency for Energy Efficiency), for their views during the preparation of this material.

ABBREVIATIONS

ALPEX	Albanian Power Exchange
ADRA	Agricultural and Rural Development Agency
CoM	Council of Ministers
OSSH	Electricity Distribution System Operator
KESH	Albanian Power Corporation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ERE	Energy Regulator Authority
ERP	Economic and Reform Programme
EU	European Union
INSTAT	Institute of Statistics
NREAP	National Renewable Energy Action Plan
NES	National Energy Strategy 2018-2030
SME	Small and Medium Enterprise
MIE	Ministry of Infrastructure and Energy
MFE	Ministry of Finance and Economy
WB	Western Balkans

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INTRODUCTION

Albania could be a "green battery"[2] for the wider Balkan region due to its immense potential on renewable resources. However, due to the changes in the hydrological condition and the non-diversification of its resources, the country is exposed to a considerable degree to the risk of supply insecurity. Referring to the National Strategy on Energy 2030[3] "*the government has committed to a policy of increasing the use of renewable energy, mainly hydro, solar and wind, as a long-term perspective needed to support overall economic development, security of energy supply and protection of the environment*". Despite several government interventions, the recent EU Progress Report 2022 mentions "*There was limited progress on the reform of the electricity market and connectivity measures in the renewables and gas sectors and on regional interconnection lines, as well as in diversifying from hydropower generation to other renewable energy sources[4]*".

In a regional context, following Sofia Declaration (2019) and recent EU green policy commitment and instruments, Western Balkan countries[5] are embarked on reforms covering the creation of competitive and integrated energy markets to adapt to a new regulatory environment as part of the *Green Agenda* (define legally binding objectives with timelines and pathways, while ensuring regulatory and financial mechanisms and capacities for its implementation).

While the local business community needs to be encouraged to consider new business models that include green entrepreneurship, sustainable investments[6], and circular design, and be

2 *https://www.euractiv.com/section/energy-environment/news/eib-albania-must-push-reform-green-transition-to-improve-citizens-lives/*

3 *Approved with CoM Decision No.480, dated 31.7.2018. Improving the uptake of the EU Eco-Management and Audit Scheme (EMAS) should also be encouraged.*

4 *Page 104, EU Progress Report 2022*

5 *As relates to the Western Balkan economies are facing two key challenges. First, the existing long-standing obligations such as the creation of competitive and integrated energy markets in line with the latest regulations must be fulfilled. Second, with the lowest hanging fruits already harvested both policy and ambition-wise (at least apart from energy efficiency), the implementation of reforms is going to become increasingly difficult, and this will take place in a dynamically changing regulatory environment.*

6 *Sustainable Investment means an investment in an economic activity that contributes to: An environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, Or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations,*

prepared to embrace sustainable product policy, extended producer responsibility and prevent environmentally harmful products (if to be placed on the Western Balkan market). *Lack of support and specific incentives for a green transition may impede their delivery, taking into account also the impact of the post-Covid-19 crisis on the business, especially SMEs.*

To respond to local business concerns, this study initially relies upon the systemic issues as reported by the business community (companies, chambers of commerce, and business associations) related to the energy sector and stored in the internal database of *Investment Climate Business Issues for the period 2015-2021.* Some of these issues concern topics such as (a) energy model market and power exchange; (b) getting energy and quality of supply; (c) the net metering scheme for self-producers/photovoltaics under 2MW; (d) best practices of incentivization of renewables. Also, other concerns were considered such as current enforcement/appealing instruments in case of energy interruption, the status of clarification of billing procedures for using alternative resources, business information awareness on the new bankable products, application of local municipal taxes on for photovoltaic construction procedures, business expectations on incentives such as exemptions from VAT or other local taxes, uncertainties in regard to the timetable of the return of investment etc.

The findings in this working document aim to bring in the IC roundtable, business perspective (with a focus on SMEs) and approach to mitigate costs related to investment uncertainties on energy source diversification. To benefit from the momentum created, it also summarizes topics for a broader discussion. The goal is to nurture/align the debate based on comprehensive data, facts and practical perspective and to generate constructive options for addressing entrepreneurs' uncertainties in the frame of the green agenda.

To feed the debate, the technical note also provides an update on the licencing of alternative sources-connection of prosumers to the grid-electricity market with a focus on SMEs, a short overview of the electricity market (ALPEX) and its main developments, a benchmarking exercise on the return period of the investment from SMEs and a snapshot of current financial instruments and partners for development programmes available to business in the field of energy.

or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives . And that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. Source: EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector. Article 2, par . 17

METHODOLOGY

The analysis is based on an inclusive methodology which consists in:

i. *Desk Research* - Consultation of documents, laws and bylaws, national and international reports on Energy in Albania, and official sources on strategic investments including those in the energy sector[7].
ii. *Synthesis of the findings and recommendations* presented in national and international reports from several actors about the energy sector, with a focus on Renewable Energy and Energy Efficiency.
iii. *Structured interview template was* sent online to 23 selected companies operating in the field of accommodation/hotels, the processing industry, food services, and construction. To obtain a more representative sample, entities connected at all voltage levels corresponding to an SME were contacted, specifically 0.4 kW, 6 kW, 10 kW, 20 kW and 35 kW. The main objective of the questionnaire was to explore challenges companies face in terms of costs and quality of investments in energy efficiency and/or solar panels.
iv. *Questionnaire* – a structured survey was sent online to at a list of companies from the Secretariat's database and received a total of 75 anonymous answers. The objective of the survey was to explore business knowledge on opportunities towards investing in energy efficiency and/or alternative sources of energy production and their familiarity with financing investment sources.
v. *16 consultation meetings* with individual businesses held during December 2022-January 2023 in Vlora, Korça and Tirana.
vi. *Organization of four Focus Groups* (47 participants) with business associations and experts in the field representing the business, business associations and chambers of commerce, experts, selected institutions at the technical and political level, NGOs, development partners, academia, etc.

For the purposes of this working document, concrete issues have been identified after a very interactive communication with busi-

7 https://www.aida.gov.al/sq/investimet-strategjike/komiteti-i-investimeve-strategjike/vendimet-e-komitetit-te-investimeve-strategjike

nesses from selected sectors, namely: accommodation/hotels, processing industry, food service, construction, etc. To obtain a more representative sample, entities connected at all voltage levels corresponding to an SME were contacted, specifically 0.4 kW, 6 kW, 10 kW, 20 kW and 35 kW. These voltage levels include entities supplied by the Universal Service Supplier at tariffs adopted by ERE (0.4 kW), entities supplied by the Supplier of Last Resort at tariffs adopted by ERE (6 kW, 10 kW and 20 kW) and entities supplied by Alternative Suppliers (deregulated market) at freely negotiated prices (35 kW).

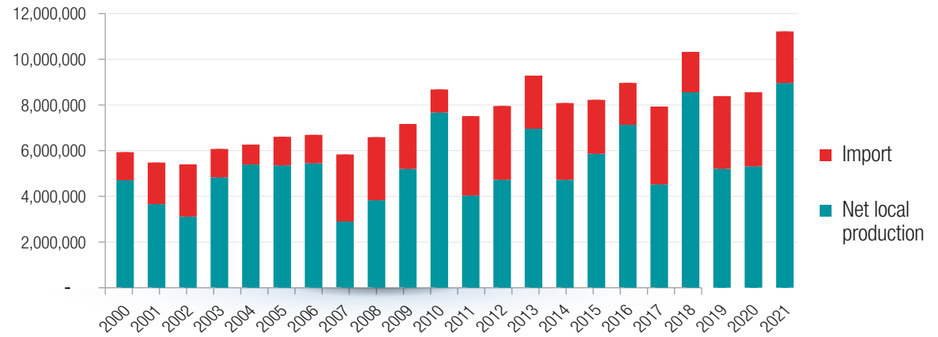
We would like to thank for their cooperation and support CCI Durrës, Tauleda Vlora, Union of Albanian Producers, WECA, and other business representatives from Korca and Vlora. A special thanks also to public institutions such as ADRA, Municipality of Korça, MIE and the Swiss Embassy in Tirana for the provision of relevant information. To obtain a more representative result, meetings were also held with entities that had invested in the construction of solar panels (as a prosumer); entities that had information but were waiting for legal improvements as well as entities that were interested in investing but did not have enough information.

CONTEXT

1. WHY ENERGY SUPPLY IS CRITICAL FOR THE ECONOMY, ESPECIALLY FOR SMES

The electricity supply in Albania is almost entirely dependent on hydropower, 98% of its electricity generation comes from hydropower, *thus making it dependent on weather conditions and the hydrographic regime of rivers and springs*. Albania tends to be oriented towards the import of energy, mainly during the summer period. This is an indication of the *dependence of this system on an unstable hydrological regime.* The supply system of the electricity sector in Albania makes it very vulnerable to climate change, especially in view of climate changes in the Western Balkans. The large fluctuation of hydropower production constantly leads to the need for electricity imports making Albania a net importer of energy. *In light of the recent energy crises, the vulnerability of the energy system in the country is a direct "threat" to business costs, in particular SMEs.*

Figure 1. **Albania Production and import of electricity 2000-2021 (MWh)**



Source: INSTAT

2. ENERGY MARKET - NEED FOR DIVERSIFICATION OF SOURCES

Electricity production in Albania is generated by KESH, the public production company, as well as by other entities such as priority producers, independent producers, and self-producers of electricity. The total installed capacity of power plants connected to the distribution network has increased over the past few years due to new private investments in hydropower plants and more recently in small photovoltaic plants. In 2021, the total electricity production capacity installed in our country was 2,605 MW, of which 1,448 MW is state property (1,350 MW hydro and 98 MW thermal), while the rest is private. According to the data, the production capacity of 2021 had an increase of 97 MW, compared to 2020.

The production[8] of electricity of the plants connected to the distribution network in 2021, was 905,230 MWh, while the production of the plants connected to ***photovoltaic plants reached*** *the amount of 40,756 MWh. Until 2017, Albania only offered renewable energy incentives for hydropower plants.* However, the legislation adopted in 2017 promoted the production of electricity from renewable sources. Despite this, until 2022 solar and wind energy *remained undeveloped*, although some small investments in solar energy development have been undertaken with a solar production capacity of only 23 MW with an installed capacity of 2 MW. Preliminary approval has also been granted for several wind farms. The National Renewable Energy Action Plan promotes investments in the development of *small-scale wind farms* of less than 3 MW for a total installed capacity of 30 MW. The potential of wind as an energy source is distributed throughout the territory, with an average annual wind speed between 6-8 m/s[9].

Regarding *electricity efficiency* in Albania, it has considerable potential to increase, especially in relation to distribution losses, *which reached 20 per cent in 2021. Investment in improving the thermal insulation of houses and the use of equipment that leads to the reduction of wasted energy would also help reduce unnecessary demand.*

Figure 2. **Data on producers for 2021**

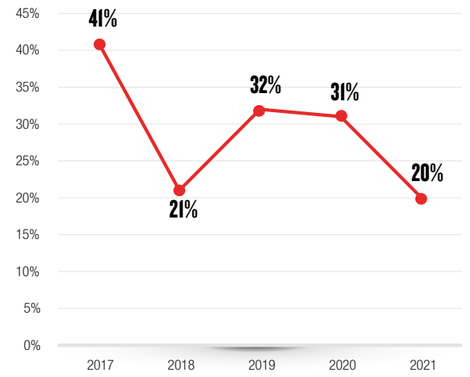
Energy Producers	Installed Capacity (MW)	Production 2021 (MWh)
Public Producer	1,448	5,343,974
Independed producers (Producers in the open market)	436	1,425,989
Producers with priority (Benefiting from support schemes) +Ashta	380	1,246,750
Producers with priority (Benefiting from support schemes)	318	905,230
Producers with priority photovoltaic (Benefiting from support schemes)	23	40,756

Source: ERE

8 *The total capacity installed in power plants in the transmission network is 2,264 MW. The net production of electricity generated by hydropower plants connected to the transmission network in 2021, was 8,016,730 MWh. The total installed capacity of power plants in the distribution network is 341 MW, of which 318 MW of power is installed in Hydro sources and 23 MW of installed power are photovoltaic plants.*

9 *In Albania there is a diesel power plant with a capacity of 98 MW, representing 4% of the total installed capacity, which has not been used since its construction in 2011.*

Figure 3. **Network losses to net domestic production ratio (%)**



Source: INSTAT

Throughout the year 2021, there was an increase in new plants, which consequently led to an increase in production. In total, during this period, are introduced *into generation 18 plants with an installed capacity of 97 MW*. These plans generated the amount of 79,971 MWh during the year 2021. *This new electricity production generated by the new plants that entered in production during 2021 occupies about 0.9% of the total domestic electricity production for this year.*

ALBANIAN POWER EXCHANGE (ALPEX)

The electricity market is currently characterized only by bilateral contracts, concluded between companies operating in the Albanian electricity market. The establishment of the organized market (Albanian Pawer Exchange - ALPEX) is under finalization. The service provider for the development of transactions has been selected, and the rules for the operation of ALPEX have been drafted. In the first quarter of 2023, it is expected that training will be held with all participants of the electricity market, the main acts for the operation of ALPEX will be adopted and the testing procedure (dry run) will start. At the end of the testing procedure, is anticipated that the organized day-ahead and intra-day market will be established.

With the start of the organized market, the electricity market will be developed in a competitive environment, in the wholesale and retail markets. The market model, with the peak point the organized market, will provide inherent benefits to customers in terms of securing electricity supply and towards a qualitative service – effective use of cross-border trade, allowing the benefit of the electricity sector in terms of efficient use of generating resources – the creation of conditions for the development of a transparent and non-discriminatory market - liberalization of the electricity market, establishing a market structure that increases the interest and number of participants, establishes the conditions for opening the sector to competition and increases the participation of foreign investors.

With the development of the organized market, electricity customers will have access, directly (large customers) or indirectly (through electricity suppliers), to ALPEX. In addition, they will be able to have access to electricity on hourly

resolution, and soon, on 15-minute resolution, customizing the electricity supply with an individualized profile.

With the consolidation of the organized market, there will be increased interest and competition in the electricity supply sector, enabling the introduction of elec*tricity "aggregators" as well as the development of electricity communities. These two expectations will enable the trading of electricity produced/consumed by prosumers as well in the electricity market.*

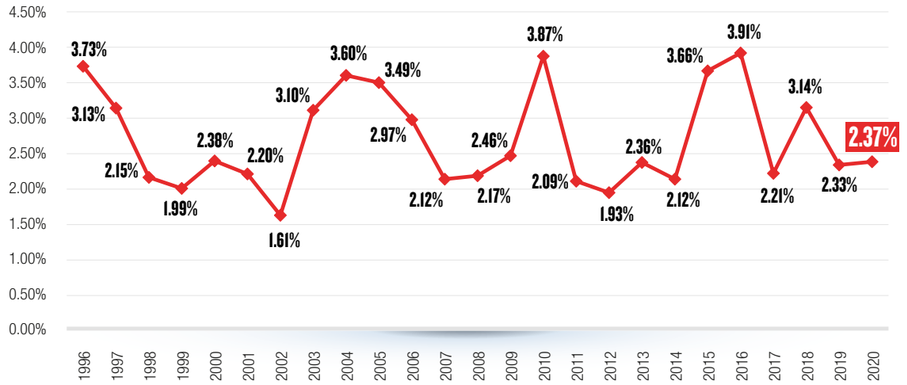
3. THE ROLE OF THE ENERGY SECTOR IN THE COUNTRY'S ECONOMY

The energy sector plays an important role in the country's economy. In 2020 the energy sector contributes 2.37 % of the Albanian GDP.

According to INSTAT[10], the sector with the highest percentage of energy use is that of "Plastics products and other non-metallic mineral products" with 23.1%, followed by the "Sewerage; waste collection, treatment and disposal activities; materials recovery; remediation activities and other waste management services" sector with 17.2%. Also sectors with high use of energy in their inputs are "Computer, electronic, optical products, electrical equipment and machinery and equipment (including transport equipment)" with 10.2%, "Financial and insurance services" with 8, 3% as well as "Telecommunications services" and "Administrative and support services" with 7.5% each.

Within the National Energy Sector Strategy 2030, an analysis of energy development scenarios revealed that, given past growth trends and under a business-as-usual scenario, **the annual energy demand in Albania is expected to increase by 77% in 2030 compared to 2018 levels** (MIE, 2018b). The transport sector is forecasted to continue to be the largest energy consumer over the next decade, contributing to continued net energy imports. The second-largest energy consumer will be the residential sector, followed by the industrial and services sectors. *The highest increase in energy demand will be seen in the services sector.*

Figure 4. Percentage of the energy sector to GDP, 1996-2020 (%)



Source: INSTAT

10 Supply, Use and Input-Output Tables, 2019, INSTAT

4. TACKLING ENTREPRENEUR'S UNCERTAINTIES ABOUT ALTERNATIVE FORMS OF ENERGY RESOURCE – COST-BENEFIT ANALYSIS OF INVESTMENTS IN PHOTOVOLTAIC PANELS (PROSUMERS[11])

To analyze the return on investment in renewable energies (photovoltaic panels – prosumers), the following assumptions have been taken into consideration:

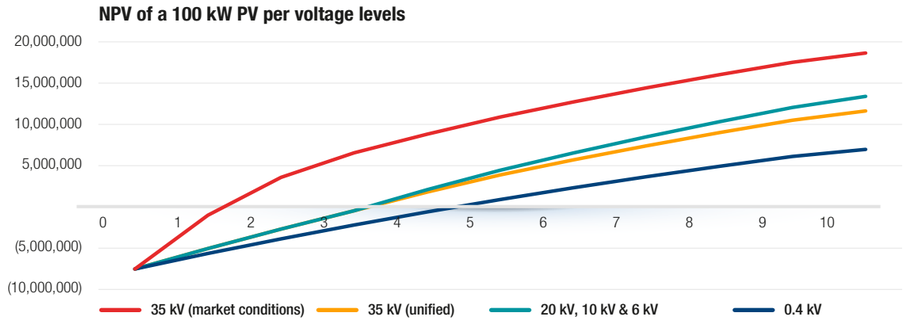
» Capacity: 100 kW, on the terrace (electricity production is calculated considering the average radiation of 1,400 kWh/kWp, as defined in point 6, of the Decision of the Ministry of Infrastructure and Energy No. 3, dated 20.06.2019 "For the approval of the simplified authorization procedure for connection to the distribution system of small renewable projects for prosumers of electricity from the sun");
» Initial investment: 7,605,000 ALL (650 EUR/kW, without VAT).
» Annual O&M cost: 117,000 All;
» Annual increase in O&M costs: 3%;
» Life expectancy: 25 years.
» Discount (actualization) rate: 5%.

- For customers connected at the 35 kW voltage level, two alternatives are considered:

» will continue to be supplied with unit/prices according to market conditions.
» will be unified with customers connected at the levels of 20, 10 & 6 kW related to state support (unit/price until 2024 will be 18.26 All/kWh), in the future, according to market conditions.

- Customers connected at the voltage levels of 20, 10 & 6 kW will be supplied at the unit/price 18.26 All/kWh until 2024, after that, according to market conditions.

Figure 5. Payback period on investment in renewable energies



Source: Experts Calculation

11 *Prosumer of electricity, based on the Law No. 7/2017 "For promoting the use of energy from renewable sources", is considered a small or medium-sized company, which may install a total capacity of up to 500 kW for the production of electricity from wind or sun.*

- Customers connected at the 0.4 kW voltage level will be supplied with the regulated unit/price of 14.00 All/kWh.
The most direct and measurable benefit, in the frame of energy efficiency, is related to the *replacement of halogen and incandescent lamps with LED, as well as the installation of lighting control, defining the period in which a light will remain on.* In addition, the replacement of the old boiler with a new condensing boiler gives an immediate impact.

5. KEY MESSAGES FROM INTERNATIONAL REPORTS

3.5.1 EU Progress Report for Albania 2022[12]

Albania *made some progress on the legal framework* for energy efficiency (EE) but still needs to adopt all missing bylaws. No new energy efficiency funding mechanisms have been put in place. The energy efficiency agency's role, capacities, and operations need further improvement. Albania has adopted its National Energy and Climate Plan 2030, to be implemented in 2022. Last year's recommendations have not been completely addressed and remain valid[13].

On **renewable energy,** Albania adopted amendments to the 2017 law in January 2021. The Feed-in Tariff (FIT) support scheme has been transformed into a contract for difference (CfD), while a renewable energy operator (REO) should be established. The CfD support scheme implementation regulation and the REO are expected to be in place by the end of 2022. A pricing methodology for consumers with an installed capacity of up to 500kW was adopted in 2021 and should be implemented by the end of 2022. *The establishment of an agency responsible for renewable energy has not yet been accomplished. The National Agency of Natural Resources was appointed to perform this role for the time being*[14].

3.5.2 IRENA- Albania Renewables Readiness Assessment[15] (March 2021)

Albania remains a net importer of goods and services. Energy imports, in particular, restrict economic growth considerably, have a negative effect on the country's trade deficit and leave the country open to supply shocks. That is why, *establishing energy security, energy sector sustainability and an ensured energy supply at cost-competitive prices are therefore some of the key challenges for the country to address in the near term. These challenges can be met hy further increasing* ***the share of renewable energy in the national energy mix and diversifying the country's electricity sector.*** While opportunities for the deployment of solar energy are extensive. Albania's solar insolation is very high throughout most of its territory at more than 1 500 kWh/m2 annually, with peaks of 1 753 kWh/m2 annually, particularly in the western part of the country. Meanwhile, according to IRENA's estimations- under a low-cost capital scenario, Albania has a cost-competitive wind potential of up to 7 400 MW and the Agency proposes in its Remap scenario a wind installed capacity of 616 MW by 2030, with an annual generation potential of 1 794 GWh.

3.5.2 UNECE[16] Renewable Energy Uptake: Development of Renewable Energy in Albania-June 2021

While providing a comprehensive factsheet on the renewables in Albania, it focuses on the measures for support of renewable energy highlighting the following: (i) Small-scale renewable assets in Albania are eligible for feed-in-tariffs guaranteed through the obligatory purchase of energy by the distribution system operator (DSO); (ii) Utility-sale projects are auctioned and financed through a Contract for Differences (CfD) scheme. Albania was one of the first countries in the South-East European region to introduce auctions for renewable energy projects and has since successfully tendered PV projects at competitive prices; (iii) Net-metering is eligible for small to medium-sized solar and wind systems of up to 500 kW; (iv) Certain customs duty exemptions apply for machinery and equipment used in the construction of all power plants, including both renewable and conventional power plants.

For purposes of this working document, the draft of the Economic Reform Program 2023-2025[17](ERP) and Business Investment Development Strategy[18](BIDS) were also consulted. ERP refers to the objectives of the National Plan for Energy and Climate for increasing the amount of renewable energy in the final gross energy consumption by 59.4% compared to the previous 54.4%. BIDS does not provide for a sectoral approach hut underlines that energy production from renewables should be considered a strategic advantage for the country.

12 Progress Report for Albania, October 2022

13 In the coming year Albania should in particular:
1. ensure the Power Exchange (ALPEX) and day-ahead electricity market are fully operational and continue strengthening the electricity transmission network.
2. complete the functional unbundling of energy operators and ensure full access to the liberalised market for all customers connected to 20kW in 2022, as well as the progressive extension of this access to all customers;
3. implement the updated National Energy and Climate Plan (NECP) 2020-2030, including renewable energy and energy efficiency action plans, ensure all enabling institutional and legislative as well as funding and certification and audit measures are in place, including by shifting renewable electricity production away from hydropower, taking into account the energy crisis.
4. Utilize benefits in the Energy Community guarantees of origin and sign direct agreement with the service provider to use national electronic register for issuance, cancellation, and trade of guarantees of origin, in line with the EU standards.

14 Page 106, EU Progress Report 2022

15 https://www.irena.org/publications/2021/March/Renewables-Readiness-Assessment-Albania

16 https://unece.org/sites/default/files/2021-07/UNECE-RE_Uptake_Factsheet_Albania.pdf

17 http://www.konsultimipublik.gov.al/Konsultime/Detaje/596

18 https://financa.gov.al/wp-content/uploads/2021/10/Strategjia-e-Zhvillimit-t%C3%AB-Biznesit-dhe-Investimeve.pdf

BACKGROUND OF THE SECTOR

1. MAIN LEGAL DEVELOPMENTS

» In 2017, Albania adopted Law no. 7/2017 "On Promotion for Using of Renewable Energy Sources" to comply with the Energy Community Treaty partially transposing Directive no. 2009/28/EC "On Renewable Energy Sources." This law provides for "incentive schemes"[19] as a direct engagement of the government to reach the target on the use of power produced from renewable sources. The law set out the adoption of the National Renewable Energy Action Plan (NREAP), which, among others, sets *forth the targets for the share of renewable energy in the total energy consumption of the country,* including electricity, transport, and heating and cooling. Furthermore, it stipulates policies and support measures for the achievement of such targets.

» As of today, a new draft law on renewables has been released subject to public consultation[20]. The Draft Law introduces a more flexible treatment of renewables self-consumer. The current law provides that, *in accordance with the metering scheme, a small or medium-sized utility or a household customer can install a total capacity* of up to 500 kW for the production of electricity from renewable sources (wind or solar) to cover part or all of the energy needed for personal/business needs and inject the excess energy produced into the distribution grid.

» The new draft law stipulates that renewable self-consumers will have a maximum capacity of 500 kw and will have the right to generate, consume, store and sell excess production of renewable electricity, including through bilateral agreements, electricity suppliers and trade agreements with counterparts, without facing discriminatory or disproportionate burdens. The rights and responsibilities of renewable self-consumers will be defined in a CoM Decision[21].

19 *Support with regulated tariffs (feed-in-tariff) and CoD (Feed-in-premium)*

20 *https://konsultimipublik.gov.al/Konsultime/Detaje/517*

21 *The decision of the Council of Ministers, shall provide, among others:*
- *The renewable self-consumer compensation scheme based on the net billing methodology;*
- *The application procedure for renewable self-consumers, including the relevant deadlines;*
- *Technological and technical requirements including, but not being limited to, necessary improvements of metering system to make possible the implementation of the compensation scheme;*
- *Rules for the sale of self-generated energy;*
- *Remuneration for electricity generated by self-renewable consumers determined by ERE in accordance with the decision of the Council of Ministers;*
- *The price of electricity generated by renewable self-consumers must ensure a fair compensation that reflects the market value of the energy supplied to the network and will avoid cross-subsidies or unfair discrimination between renewable self-consumers and other customers. The price of electricity also takes into consideration the costs incurred for transmission, distribution and balancing system;*
- *The annual period that will serve to measure their production.*

» NREAPs are updated every two years, and the latest was adopted in September 2019 as a consolidated Action Plan for the years 2019-2020. This action plan superseded the previous NREAP for 2018-2020 *by reducing the targets for hydropower production and increasing targets for solar and wind in an effort to diversify the energy mix through penetration of wider renewable energy technologies*. NREAP will be superseded by the National Energy and Climate Plan (NECP), which is still to be finalized, and will set out renewable energy targets to 2030[22].

» National Strategy on Energy 2030[23]-The government has committed to a policy of increasing the use of renewable energy, mainly hydro, solar and wind. The country is exposed to a considerable degree to the risk of supply insecurity, due to changes in the hydrologic conditions and non-diversification. National Energy Strategy 2018-2030" incorporates the necessary changes needed to increase the security of energy supply and optimization of resources to meet the needs with the main objective of sustainable development of the economy.

Figure 6. Overview of 2030 energy strategy objectives

Description	Baseline in 2015	Objective target by 2030
Losses in the electricity distribution network	31.4%	10%
Losses in the electricity transmission network	2.2%	1.7%
Electricity payment collections	90%	98%
Share of domestic primary energy sources in the TPES	47.5%	52.4%
Share of renewable energy sources in the TPES	32.5%	42%
Share of biofuels in total energy consumption in transport	3.5%	10%

Source: National Energy Strategy 2018-2030

The above developments are supported by an Institutional Framework a frame of which detailed in Annex 1.

22 *https://www.infrastruktura.gov.al/wp-content/uploads/2021/12/Vlersimi-Strategjike.pdf https://konsultimipublik.gov.al/Konsultime/Detaje/421*

23 *Approved with CoM Decision No.480, dated 31.7.2018.*

FINDINGS & ANALYSIS

Findings of the working document are summarized in three main pillars as per the concerns raised by businesses during the meetings and focus group meetings: (i) getting energy and the pre-conditions businesses identify of utmost importance for their activity- further investments in the distribution energy network. (ii) expected improvements of legal and regulatory nature that could potentially support the release of more investments in renewables; (iii) challenges and opportunities for SMEs in the frame of access into financing for renewables.

During the consultations process for the preparation of this Working Document, the Secretariat evidenced that the promotion of the use of renewable energy sources and their introduction into the energy market has had an increased focus in recent years in Albania, not only in relation to the approved (and/or in process) legal framework. Here we consider the fact that the currently allowed capacities of up to 500 kW for the installation of wind or solar power generation units by a small or medium-sized company or a family customer are among the highest in the region (where it usually varies up to 200kW). The development of alternative sources, in this case of capacities generated by self-producers, must also consider the limited capacities of the distribution network, its necessity for investments[24] (limited in recent years by successive crises) and the budgetary strain for maintaining the stabilized price for consumers (except for only 59 companies which, due to the liberalization of the market, have unregulated prices).

On the other hand, several dynamics and initiatives are evident in the field of consumption optimization, projects that support and encourage families who install solar panels (70% grant for the investment cost), energy saving by public institutions (the appointment of energy administrators) and projects and initiatives to promote energy efficiency in buildings.

Finally, it is worth mentioning that the new draft law for the promotion of the use of renewable resources (already in the parliamentary procedures) is expected to bring a new impetus in relation to RES and to address a significant part of the findings and recommendations included in this Working Document.

1. SMES' AWARENESS ON SOURCES OF GETTING ENERGY AND PERCEIVED CHALLENGES

» **A sustainable energy network is perceived as indispensable and directly affects the smooth running of business activity confirmed by 88% of interviewed companies**. Approximately, 1 out of 6 companies declares they have not experienced a power outage in a month, while 64% of companies had up to 5 power outages during a month and 17% of them more than 5 times per month.

24 *It is estimated that in order to reduce technical losses in the network by 1%, about 50 million EUR investments are required in the distribution network*

Figure 7. Impact of the power outage on business activity

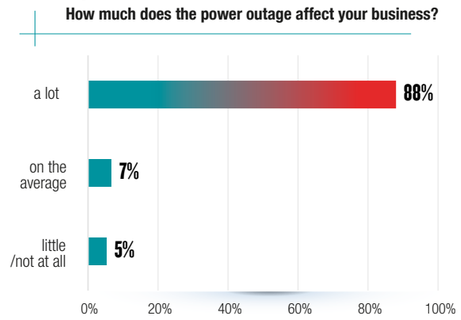
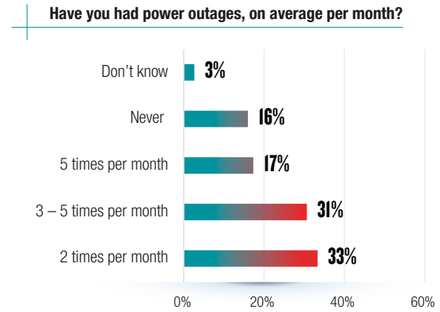


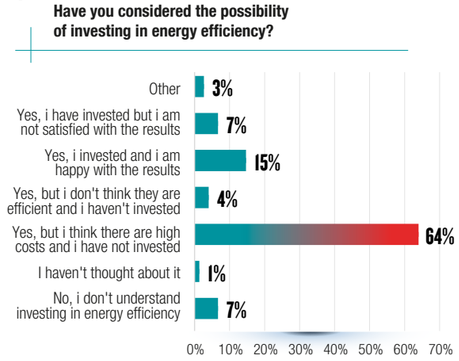
Figure 8. Power outages



Source: Secretariat's Survey

» In light of the recent global energy crises and changes in the energy markets, **the private sector is aware of other alternative energy sources used, apart from hydroelectric energy**. However, high initial investment costs seem to be the main obstacle in the decision to invest in alternative energy sources (opinion of 64% of interviewed companies). More than 9 out of 10 companies do have information on alternative sources and 22% of them have invested although with different opinions on their effectiveness.

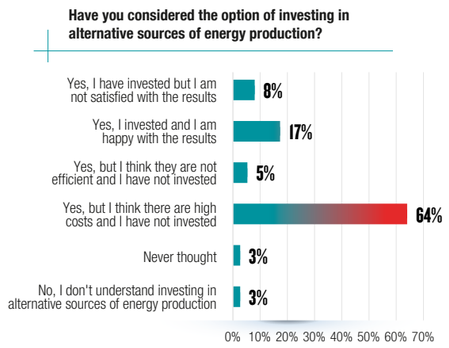
Figure 9. **Knowledge of alternative energy sources options**



Source: Secretariat's Survey

» **Energy efficiency, as a form of energy cost decreasing, is well recognized among the businesses (95%)** and 1 out of 5 companies have done some investments in this direction. In general, the decision of investing in energy efficiency or other alternative energy sources is associated with the insecurity of its efficiency and the associated high costs.

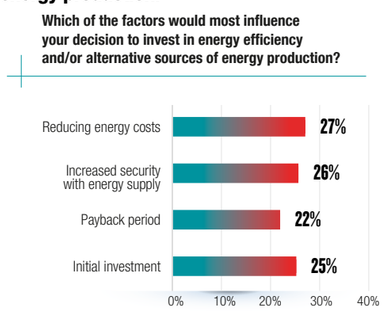
Figure 10. **Knowledge of energy efficiency options**



Source: Secretariat's Survey

» A company's decision to invest in energy efficiency and/or alternative source of energy is influenced mostly by **the ability of energy cost reduction and secure energy supply.**

Figure 11. **Factors that influence the decision to invest in energy efficiency/alternative sources of energy production.**



Source: Secretariat's Survey

2. GREEN AGENDA AND ENERGY EFFICIENCY CLIMBING UP THE CORPORATE AGENDA AND GOVERNMENT PRIORITIES

The following issues are listed as identified by the businesses during the meetings, interviews, focus groups and Questionnaires. An in-depth analysis of issues was made to align the current findings with the rationale and current legal & regulatory framework. The issues raised are summarized in 5 main categories: (A) legal and regulatory; (B) technical issues; (C) competitiveness; (D) economic and financial; (E) procedures facilitation and access to information.

A. LEGAL AND REGULATORY

» **Although the progress made with the adoption of a dedicated legislation on renewables in 2017, there is still need for the improvement and/or implementation of the current primary and secondary legal & regulatory framework governing renewables, that could facilitate and optimize the investments in this area.** More concretely, the optimization, incentivization and streamline of the investments in photovoltaic panels by businesses (self-producers of energy) are undermined by the lack of benefiting from the exchange of surpluses of energy produced in the distribution network. Businesses claim that the current net metering scheme (net-off between the electricity produced and consumed) does not help for a fair market system, since the surpluses of energy are delivered for free in the distribution network. This is mainly due to the non-adoption and implementation of the net electricity metering scheme on annual basis, and the lack of the methodology determining the selling price in the deregulated market.

With regard to the above, from our analysis we identified the following:

» Non-adoption of the *"Net electricity metering scheme"* on annual basis (currently a monthly scheme is applied), in alternation with the non-adoption of the "Methodology for determining the price for the sale of surpluses to the Universal Service Supplier, charged with public service obligation", classifies part of the projects as not profitable from an economic perspective. In addition, this alternation "forces" a significant part of the prosumers to install lower power capacity than the expected consumption (being exposed to high electricity market prices in the months with lower electricity production), or to install increased power capacity compared to the expected consumption (being exposed to the "donation" of surpluses).

» Non-adoption of the *"Methodology for determining the price for the sale of surpluses to the Universal Service Supplier, charged with public service obligation"*, where the monthly surpluses are transferred to the Universal Service Supplier without compensation. Many projects in the framework of the installation of photovoltaic panels in the quality of prosumers have not been materialized due to the non-adoption of this methodology. The non-adoption of the methodology, in alternation with the application of the monthly netting scheme, classifies part of the projects as not profitable from an economic perspective.

» Non-adoption of the *"Methodology for determining the selling price of electricity produced by prosumers active in the deregulated market"*. Many projects in the framework of the installation of photovoltaic panels in the quality of prosumers, have been materialized by electricity customers connected to medium voltage (6 kW - 20 kW). This category, in alternation of articles 86.6 and 109.1 of the Law No. 43/2015 "On the electricity sector", as amended, is expected to be supplied by the deregulated market after 31.12.2023. Under such conditions, will be practically impossible to apply the net scheme on monthly or annual basis (as it is currently impossible for electricity customers connected to the 35 kW voltage), where the Universal Service Supplier to be the buyer of the electricity produced from the prosumer's photovoltaic panel, while the electricity consumption of this prosumer to be supplied by an alternative supplier.

» **The lack of secondary legislation that supports the construction of wind farms for self-consumption purposes shrinks the opportunities for renewables.** Certain businesses i.e., in Durrës operating in the field of agritourism's accommodation structures were interested in investing on Eolic/onshore farms as a mean to benefit from the windy characteristics of the area where their business was located. According to them although such structures were supposed to produce energy in a small amount and for self-consumption purposes, there was not any framework in place to streamline their construction and operating process.
According to the analysis results the non-adoption of the Decision of the Ministry of Infrastructure and Energy *"For the approval of the simplified authorization procedure for connection to the distribution system of small renewable projects for prosumers of electricity from the wind"*, where currently the simplified procedures have been adopted only for prosumers of electricity from the sun. The primary legislation has classified the production of electricity from the wind as production subject to the net electricity metering scheme. The non-adoption of the simplified procedures prevents a significant part of interested investors (mainly those who have no practical opportunities to install photovoltaic panels), to be exposed to the high prices of the electricity market without alternatives.

» **There is some incoherence between the legal provisions related to the maximum installed power at disposal of prosumers, apparently due to the adoption of legislation at different milestones on energy reform.**
Our analysis showed the need for better harmonization of the legal provisions stipulated in articles 37.6.b (1 MW) and 49.4 (1 MW), of the *Law No. 43/2015 "On the electricity sector"*, as amended, with those of article 15.1 (0.5 MW), of the *Law No. 7/2017 "For promoting the use of energy from renewable sources"*, unifying the installed power of prosumers with a maximum capacity of 1 MW. The moderate consumption of customers connected to the medium voltage considers the maximum capacity of 1 MW more than sufficient to accommodate the electricity needs of (almost) all customers connected in this segment.

» **The inability to trade "green certificates" in a regional market (the absence of a local market related to the trading of this instrument is identified, at least in the short term), prevents RES procedures (mainly those without state support) to have access to additional financial resources.** Under these conditions, with the adoption of the possibility for trading this instrument, investments in this segment become much more attractive, mainly considering the fairly inherent financial values that (currently) "green certificates" generate.
It results that procedures related to the trading of "green certificates" are non-yet adopted. The trading of "green certificates" is stipulated in the EU Directive 2009/28/EC of April 23, 2009, transposed into Albanian legislation through the Decision of the Ministerial Council of the Energy Community No. 2012/04/MC-EnC of October 18, 2012.

» **The inability to trade "guarantees of origin" in the local or regional market, prevents RES procedures (mainly those without state support) to have access to additional financial resources. With the adoption of this instrument, investments in this segment become more attractive.**
From our analysis results that non-adoption of procedures related to the trading of "guarantees of origin". The trading of "guarantees of origin" is stipulated in the EU Directive 2009/28/EC of April 23, 2009, transposed into Albanian legislation through the Decision of the Ministerial Council of the Energy Community No. 2012/04/MC-EnC of October 18, 2012. In addition, it is clearly stipulated in Article 16 of Law No. 7/2017 "For promoting the use of energy from renewable sources".

» **Electricity produced by prosumers is exchanged only with the Universal Service Supplier. In addition, the principles for the integration of renewable energy prosumers and the "Community of Renewable Energy" in the electricity sector, have not been adopted. Their adoption into legislation would release new energy and opportunities, not only for customers, producers, prosumers as well as electricity traders but would also enable the establishment of a liquid electricity market, with inherent benefits for all its participants.**
With regard to the above, through our analysis we identified the non-adoption of the functioning principles of the "Aggregator" as well as of the "Community of Renewable Energy". The adoption of the above principles would enable the "Community of Renewable Energy" to produce, consume, store, share, sell electricity, offer aggregation as well as have access to all energy markets, directly or through aggregation. "Aggregation" would enable the combination of multiple customer loads or generated electricity for sale, purchase or trading in any energy market.

B. TECHNICAL ASPECTS

» **Despite improvements made, guaranteeing the quality parameters of electricity supply according to EU standards and avoiding frequent load shedding and voltage fluctuations above the technical standards allowed by the technologies, machinery and equipment installed by the SME segment, remains a challenge.**
The parameters of the quality of electricity supply are stipulated in the "Regulation for the standard criteria of the quality of the supply service and the safety performance of the electricity distribution network", adopted by ERE Decision No. 181, dated 10.11.2017. The main quality parameters for 2021 are incorporated in the ERE Decision No. 97, dated 04.07.2021 "On the approval of the indicators for the standard criteria of the quality of the supply service and the security performance of the electricity distribution network for the year 2021", as follows:

- Frequency Quality (FQ): Normal operating limit: 49.8 → 50.2 Hz. During system disorders: 48.0 → 52.0 Hz.
- Voltage Quality (VQ): 230 V → 400 V = -10% → +5%: 6,000 V → 110,000 V = -5% → +5%.
- Notification Period of Planned Maintenances in the Distribution System = 72 hours.

From an analysis of the applicable legal ground as well as the issues addressed by SMEs, it comes out that:

(a) ERE has not approved the indicators for the standard criteria of the quality of supply service and security performance of the electricity distribution network for the years 2022 and 2023, not enabling the electricity customers to access vital information regarding the expected performance of the Distribution System Operator as well as exercising their respective rights.

(b) ERE has not approved the "compensation amount" for the customers in case of non-compliance with the standard criteria of service quality according to the provisions of the "Regulation on the standard criteria of the quality of the supply service and the security performance of the electricity distribution network", adopted by ERE Decision No. 181, dated 10.11.2017, not enabling the electricity customers to address requests for compensation against the Distribution System Operator.

Approval of indicators for standard criteria of quality of supply service and security performance of the electricity distribution network for the years 2022 and 2023 (and for each calendar year thereafter), alternating with the approval of the "compensation amount" of customers in case of non-compliance with the standard criteria of service quality, would result, not only in stability from the regulatory point of view but also the awareness of customers as well of the Distribution System Operator regarding the quality standards of the supply service and security performance of the electricity distribution network.

» **The current obligation for mandatory location (interlink) of the electricity generating unit in the same place as the electricity consumption unit, limits the investments in photovoltaics and correspond to the factual situation that businesses operate. Removal of this limitation would not only include a much wider range of applicants but would also enable the utilization of currently unproductive lands/small surfaces. The proposal is made possible through the materialization of the installation of two meters (one for production and one for consumption), as well as their netting based on the applicable resolution (monthly or yearly).**

From an analysis of the provisions of Law No. 7/2017 "For promoting the use of energy from renewable sources" as well as of the Decision of the Ministry of Infrastructure and Energy No. 3, dated 20.06.2019 "For the approval of the simplified authorization procedure for connection to the distribution system of small renewable projects for prosumers of electricity from the sun", results that the location of the electricity generating unit must be in the same place as the prosumer's electricity consumption unit (a two-ways meter). The above limitation is not only considered not necessary from the technical point of view, but it sufficiently limits all potential investors in the framework of prosumers. From communications with SMEs, it results that in many cases, customers not only did not have enough space to install solar panels in the consumption unit, but even in cases when was possible, would have a negative effect on the offered panorama (mainly in consumption units of an accommodation character).

» **Despite the legal specification regarding the reduction in quantity and *at peak times* of electricity consumption, ERE has adopted tariffs only for discouraging the consumption of electricity at peak times, without considering "granting of any incentive" for electricity consumption in night hours/low consumption bands, depriving the affected customers of further reduction of electricity costs.**

In article 3.12 of Law No. 43/2015 "On the electricity sector", as amended, is defined that: "Energy efficiency/demand management" is the use of electricity in such a way as to affect the reduction in quantity and at peak times of electricity consumption. Currently, Universal Service Supplier invoices electricity to SME customers (those connected to the 0.4 kW voltage), based on tariffs adopted by the Energy Regulatory Authority. The supply tariffs for customers connected to the medium voltage are liberalized, while for the low voltage level (0.4 kW), are adopted on the basis of the principles of the "Methodology on Defining the Retail Electricity Sale Price for the End-Use Customers Supplied from the Universal Service Supplier (FSHU)", adopted by ERE Decision No. 189, dated 23.11.2017. Based on the actual tariffs, customers connected to low voltage (0.4 kW) pay a tariff of 14 All/kWh for the "base" profile, meanwhile, for the period November 1 - March 31, from 18:00 to 22:00 and, for the period April 1 - October 31, from 19:00 to 23:00, pay a tariff of 16.1 All/kWh. For customers "Bakery and flour production at 0.4 kW", pay 7.6 and 8.74 All/kWh respectively.

On the basis of the best industry practices, ERE could adopt incentives related to the shifting of consumption from the peak band (as a result, quite high prices) to the off-peak band (quite low prices). This, not only would reduce the need to purchasing of electricity and the availability of reserves at quite expensive prices, but would reduce at the end as well the SMEs electricity costs. ERE, could either adopt lower prices for off-peak consumption, or introduce meters that run/measure a lower consumption in such resolution.

C. COMPETITIVENESS ASPECTS

» **Treatment with differentiated electricity prices for same category of businesses, was considered one of the most serious issues of the impact of the crisis in the electricity sector.**

Our analysis showed that the customers connected at the voltage levels of 6 kW - 20 kW, are supplied by the Supplier of Last Resort (FSHU sh.a.) at the unit/price of 18.26 All/kWh, for the period 01.08.2022 – 31.12.2022 (ERE Decision No. 229, dated 12.09.2022), while customers connected at the voltage levels of 35 kW - 220 kW are exposed to the prices of the international electricity market. Customers connected at the 35 kW voltage level may also be supplied by the Supplier of Last Resort (FSHU sh.a.) at market prices, specifically 31.50 All/kWh (ERE Decision No. 287, dated 10.11.2022, applicable for the month of October 2022). Customers connected to the medium voltage, specifically 6 kW, 10 kW, 20 kW and 35 kW, despite the different voltage levels, have the same business nature (in any case they are considered SMEs), and, facing diametrically different supply of electricity costs, had a direct and inherent impact, not only on their compet-

itiveness but also on the competition between them.

So, during our interviews, we evidenced SMEs' cases that due to costs related to differentiated electricity prices supply, switched to the reconnection at lower voltage levels, specifically from 35 kW to 6 kW, 10 kW, 20 kW levels, thus affecting negatively the sustainability of the electricity system as well as the supply of (other) customers of electricity with the required quality.

We would need to welcome the initiative of KESH – FTL, to enable the supply of the 35 kW segment at moderated market prices, at least for the year 2023[25].

D. ECONOMIC-FINANCIAL ASPECTS

» **Supporting projects in the electricity sector, through domestic budgetary intervention is currently limited only to the segment of households, specifically to solar panels for water heating. This scheme aims to promote the use of solar panels for water heating by household customers through a subsidy of 70% of the cost from the Agency for Energy Efficiency. *Based on ERP data[26], the total amount dedicated to Energy security through the promotion of renewable energy sources and energy efficiency improvements is estimated at 127 million Euro in 2023, 474 million Euro in 2024 and 888 thousand Euro in 2025.***

Considering the above SMEs' challenges, the current limited domestic budget support and best practices resulting from European countries (such as directly subsidize micro-investments in the renewable energy sector, mainly prosumers[27]), some private sector representatives in sectors such as tourism mentioned the need to consider designation of more attractive and incentive policies promoting renewable energies and energy efficiency considering tax and fiscal relief with respective to the applicable VAT for machineries and equipment's and removal of "*Infrastructure impact tax from new constructions*" for development of projects in the energy sector.

Secretariat is aware that such reliefs require for an exhaustive analysis of fiscal and budget implications by MFE. To this end, the following as described in the box are not endorsed as direct recommendations, but rather topics for a broader discussion and which could be potentially analyzed and adopted as recommendations by IC.

Recent energy prices dynamics: - one kWh produced by a local generating unit would replace an imported kWh (the average price in the regional market for 2022 is ~276 EUR/MWh)[28]. Thus, it remains quite important to carefully review any new tax to the production of electricity in Albania, since it can disincentives new investments in the renewable energy sector. In this context, during our analyses SME representatives were also aware of the exemption from VAT of machineries and equipment that relates to the production of renewable energy from the sun, but required that VAT removal be considered for machineries and equipment without restrictions regarding the source of energy, the installed power capacity and the value of the investment. So, referring to the Decision of the Council of Ministers No. 212, dated 20.04.2018 "For some additions and amendments in the Decision No. 953, dated 29.12.2014, of the Council of Ministers "On the implementing provisions of the Law No. 92/2014 "On Value Added Tax in the Republic of Albania", as amended", the list of machinery and equipment that serves only for the purpose of realizing investment contracts for the production of renewable energy from the sun, with installed power capacity over 0.5 MW, and with an investment value over 50 million All.

Moreover, according to article 27.3.h) of Law No. 9632, dated 30.10.2006 "On the local tax system", (as amended), provides: "For infrastructure projects, for the construction of national roads, ports, airports, tunnels, dams, construction of energy infrastructure, including machinery and equipment for these projects, the infrastructure impact tax of new constructions is 0.1 (zero point one) percent of the investment value, but not less than the cost of rehabilitation of the damaged infrastructure, when this cost is not included in the investment budget". In order to promote the development of projects in the energy sector, and specifically that of renewable sources, as well as aiming at unifying local government practices, the removal of the "Infrastructure impact tax from new constructions" is strongly suggested.

» Different municipalities used to implement different applications and interpretations on local tax *"Infrastructure impact tax from new constructions"* for works and construction of photovoltaic panels. In some municipalities (e.g. Vlora and Maliq municipalities) the infrastructure impact tax is applied, while in other municipalities (e.g. Tirana and Korça), no tax is foreseen and applied regarding such works. It seems that a unified approach related to local taxes is lacking while the legal basis and rationale followed by municipalities seem to differ.

From our analysis of the direct applicable legislation, more concretely Law no. 107/2014 "On Territory Planning and Development" (as amended), it results that *infrastructure impact tax is applicable on those works for which a construction permit is required*[29].

According to Regulation for Development of the Territory, **installation of photovoltaic panels are classified as works for which no construction permits is required, but their proceeding is allowed only on the basis of a *preliminary declaration of works*[30].**

From our analysis and consultation, it is evidenced the need for a holistic approach on raising awareness and knowledges of local municipalities and key actors on the transparent and unified application procedures of the infrastructure impact tax aiming to facilitate investment by self-producers in the renewable sector. Any wrong interpretation of the above provisions or of those deriving from Law no. 9632 dated 30.10.2006 "On the

25 *https://oshee.al/klientet-35kW-zhvillohet-ankandi-per-blerjen-e-energjise-elektrike-nga-1-janar-31-dhjetor-2023-lista-e-pjesemarresve/*

26 *The information is the total amount and not breakdown by funding source (budget, grant from development partners/other.)*

27 *as well as in the energy efficiency sector*

28 *https://hupx.hu/en/market-data/dam/historical-data*

29 *Article 46 of the law 107/2014.*

30 *Article 7 of the CoM Decision no. 408 dated 13.05.2015 "On the Approval of the Regulation for Development of the Territory" (as amended)*

Local Taxes System", though its limited impact might create uncertainties for individuals and enterprises.

E. STIMULATING NEW INVESTMENTS THROUGH SIMPLIFICATION OF IMPLEMENTATION AND ENABLING OPERATIONS

» **Approval of the construction of new electricity production capacities, which are not subject to concession, with an installed capacity of over 2 MW, by the Council of Ministers, is a considered as lengthy process.**
During consultation it was evidenced interest to invest in the sector by local investors, obviously due to the current international energy crises but not only. In this context, considering the complexity of the approval of an act by the Council of Ministers as well as the relevant deadlines, it was recommended to look at options that the Council of Ministers approves only the construction of new electricity production capacities, which are not subject to concession, with an installed capacity of over 50 MW. This would enable new generating units, with low or medium capacity (up to 50 MW), to be approved by the Ministry of Infrastructure and Energy, subject to shorter procedures and deadlines.

F. ACCESS TO FINANCING FOR ENERGY INVESTMENTS INSTRUMENTS – CHALLENGES AND OPPORTUNITIES

Recently, financing businesses in the field of energy has been growing significantly, due to the situation created by the Russia-Ukraine conflict and the EU has been one of the main financiers in this direction. The EU has supported a more connected and cleaner energy market in the Western Balkans for many years throw different financing instruments created in partnership with other donors. EBRD, GIZ, KfW, UNDP, IFC have also supported financing in the energy sector. Some of the main financing instruments are: Western Balkans Investment Framework, The Western Balkans Enterprise Development & Innovation Facility, Regional Energy Efficiency Program, The Green for Growth Fund, The Green Economy Financing Facility, The European Fund for Southeast Europe etc. We have prepared a snapshot in annex of the instruments based on available public information to help business on current information[31].

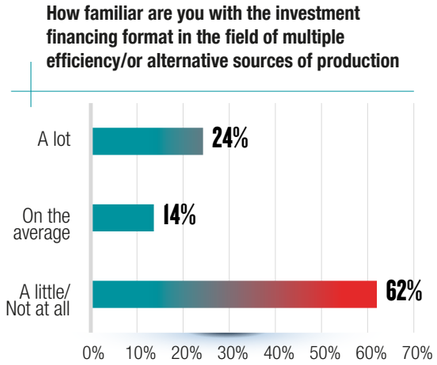
G. PRIVATE SECTOR AWARENESS ON EXISTING FINANCING OPPORTUNITIES AND RELEVANT ACTORS INVOLVED

Private sector entrepreneurs in SMEs acknowledge being informed on the new renewable opportunities. However, we evidenced a limited clarity on the right information channels on applications, benefits, and energy savings and real costs of investment, as well as on the easy access to the current financing instruments for renewable energy and energy efficiency.

(1) **There is a lack of information on alternative business opportunities on investments in renewable energy and, moreover, a high perception of its costs, highlighting the need for more information campaigns**. 62% of interviewed companies declare to have none or little information on the financing possibilities of the investment in the energy efficiency/or alternative sources of energy production (more than 6 out of 10 companies).

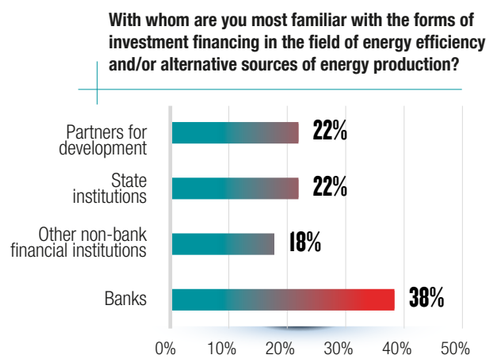
31 For a more detailed information on financial instrument please refer to ANNEX V

Figure 12. Information on alternative investment financing options



Source: Secretariat's Survey

Figure 13. Knowledge on potential financing institutions



Source: Secretariat's Survey

(2) **Banks are perceived as the most familiar investment channel used by the private sector to finance their investments in energy efficiency and/or alternate energy production source.** 38% of companies declare that banks are most known as a financing source to energy investments. *From the meetings we perceived that Procredit Bank had a very flexible and well-constructed credit line in this concern.*

(3) **There is a limited awareness of the key actors including institutions, businesses, banks, etc. in relation to the administrative and financial mechanisms that encourage or facilitate investments in the field of renewable energy production.** During consultation process in different regions, the private sector emphasized lack of a harmonized information in the local banks and/or public entities on opportunities to finance investments, mainly due to centralization of information.

RECOMMENDATIONS

1. AT MACRO AND POLICY LEVEL

Entrepreneurs in SMEs acknowledge they need more insights and support to afford uncertainties of energy transition. It would be easier for them if they were frequently informed about supporting schemes for renewables by specific scheme promoters. In addition, to help SMEs capture the momentum, increase resilience, and bring the targets of Albania's National Energy Sector Strategy 2030 within reach, institutions at both central and local level are required to provide support through the following:

RECOMMENDATION 1

MFE/MIE to assess the current instruments at disposal of SMEs, especially for those operating in crucial sectors (tourism, construction) and set up a national priority intervention list focusing on plans/roadmaps for green SMEs which could tackle their uncertainties related to funding source, return of investments in renewables, energy security and accurate information on applicable legislation. This study should provide policy vision related to (i) financial support[32] (via grants, loans, subsidies, tax relief or a combination of measures), that structurally optimize energy consumption ex: the replacement of equipment/appliances with more efficient ones, improved insulation, etc.; (ii) increased information/advice SME services (via awareness raising, guidance, training, networks), on new regulation (e.g., supplier obligations and standards) and national plans or strategies. Ex: set up an efficient system for disseminating information among key stakeholders, enable effective dialogue between business representatives and public authorities on funding opportunities as crucial elements to facilitate

32 Support with government funds, grants or low-interest loans, incentives to cover part of the investments (for a faster return), mainly in the covering of the external facades of buildings, solar and photovoltaic panels, heating installations /cooling and electrical equipment for SMEs (hotels, agritourism, etc.)

the energy transition for SME entrepreneurs; (iii) supporting energy audits and advice services. Advocate SMEs, or even offer/grant energy audits and advice aiming to quickly identify opportunities for reducing their energy consumption; (iv) implementing the most cost-effective recommendations coming from energy audits, and potentially provide by financial support.

RECOMMENDATION 2

To timely enable easy and unified access of producers and prosumers of electricity to the necessary information related to the promotion of renewable energies, as well as addressing issues related to the energy efficiency, it is proposed **the development of a centralized instrument (e.g., functions of an agency, platform, agency, website, application etc.), as a disseminating information center also sharing best practices, managed by the Ministry of Infrastructure and Energy**, which could include (at minimum):

- transparency overview on current donors' assistance programs and government support in the SME energy transition area and key capacity delivery issues[33].
- general presentation on renewable energy and energy efficiency.
- applicable legal ground.
- requirements to become a producer and prosumer of electricity from renewable sources, form, and method of application.
- investment support from donors/banking institutions, including and not limited to the offered financial products and their comparison.
- identification of the offered subsidies as well as means to benefit from them.
- return on investment for all types of investments.
- business plan for all types of renewable resources.
- active support (online) on submitted applications and/or related issues.
- active support (online) on submitted applications and/or related issues.

33 In annex there is an initial snapshot of current instruments that could be further customized to SME needs.

RECOMMENDATION 3

In order to guarantee the involvement of SMEs in the drafting of the investment plans, and, as a result, addressing the issues related to the quality of the supply service and the security performance of the electricity distribution network, **MIE/ERE should enable the practical implementation of the "Regulation on the procedures for the submission and approval of the investment plans by electricity transmission and distribution operators", adopted by ERE Decision No. 135, dated 06.09.2017, related to the consultation of the investment plan of OST and OSSH with the interested parties before submission for approval to ERE.**

2. LEGAL AND REGULATORY LEVEL:

RECOMMENDATION 4

There is a need to speed the SMEs' energy transition and facilitate the switch from mere awareness to concrete actions. The goal should be increasing trend in the market for investments in energy diversification sources by SMEs and support the large scale of their implementation. Legal interventions and improvements at both primary and secondary legislation, as well as regulatory level are recommended.

Primary legislation- *Secretariat acknowledges that a new draft-law "On Promotion for Using of Renewable Energy Sources" has been subject to public consultation and shall be approved soon. For a practical approach and cohesion with the provisions, the following recommendations tackle the articles of the current law into force 7/2017 which could be further adopted into the new draft-law.*

RECOMMENDATION 5

Amendment to article 15.3 of the Law No. 7/2017 "For promoting the use of energy from renewable sources", replacing, in the "Net Electricity Metering Scheme", the monthly resolution with the annual one.

RECOMMENDATION 6

Amendment to Law No. 7/2017 "For promoting the use of energy from renewable sources", granting the opportunity to prosumers active in the deregulated market, to sell the electricity produced by the generating unit to the Renewable Energy Operator, based on the "Methodology for determining the selling price of electricity produced by active prosumers in the deregulated market", to be adopted by the Council of Ministers.

RECOMMENDATION 7

Amendment to article 15.1 of Law No. 7/2017 "For promoting the use of energy from renewable sources", increasing the total capacity of prosumers to 1 MW.

RECOMMENDATION 8

Amendment to Law No. 7/2017 "For promoting the use of energy from renewable sources", including the adoption of the functioning principles of the "Aggregator" as well as of the "Renewable Energy Community".

RECOMMENDATION 9

Amendment to Law No. 7/2017 "For promoting the use of energy from renewable sources", clearly defining the possibility of installing the electricity generating unit by prosumers in a **location** independent from the electricity consumption unit.

Secondary legislation- *Improvements in the secondary legislation and/or enforcement of the current provisions and commitments already taken by primary legislation but not cascaded through by-laws.*

RECOMMENDATION 10

MIE/ The Council of Ministers, pursuant to article 15.3 of Law No. 7/2017 "For promoting the use of energy from renewable sources", to **adopt the "Methodology for determining the price of the sale of surpluses to the Universal Service Supplier, charged with public service obligation**". ERE, pursuant to article 15.3 of Law No. 7/2017 "For promoting the use of energy from renewable sources", after the adoption of the "Methodology for determining the price of the sale of surpluses to the Universal Service Supplier, charged with public service obligation", **to adopt the selling price of surpluses to the Universal Service Supplier.**

RECOMMENDATION 11

The Ministry of Infrastructure and Energy to adopt the Decision "For the approval of the simplified authorization procedure **for connection to the distribution system of small renewable projects for prosumers of electricity from the wind".**

Regulatory level- *enhancing transparency and diversifying the market products*

RECOMMENDATION 12

ERE, in cooperation with the Ministry of Infrastructure and Energy as well as the Secretariat of the Energy Community, Vienna, **to adopt (i) the procedure for enabling the trading of "green certificates" (ii) Methodology for calculating the renewable energy obligation and the procedure for compensating priority producers of electricity", as well as (iii) the procedure for enabling the trading of "guarantees of origin".**

RECOMMENDATION 13

ERE to adopt the "Indicators for the standard criteria (KPI) of the quality of supply service and the security performance of the electricity distribution network for the year 2023 (and thereafter for each calendar year)".

RECOMMENDATION 14

ERE to adopt, in the framework of the "Regulation for the standard criteria of the quality of supply service and the safety performance of the electricity distribution network", adopted by ERE Decision No. 181, dated 10.11.2017, the "compensation amount" of customers in case of non-compliance with the criteria for the standard quality service. The nature of the compensation should be of an automatic penalty, in accordance with the precedent of the "Regulation on the minimum conditions of the quality of the service of distribution and sale of electricity", adopted by ERE Decision No. 110, dated 21.10.2011.

RECOMMENDATION 15

ERE to amend the "Methodology on Defining the Retail Electricity Sale Price for the End-Use Customers Supplied from the Universal Service Supplier (FSHU)", adopted by ERE Decision No. 189, dated 23.11.2017, clearly defining special incentivized tariffs for electricity consumed at night/off-peak hours.

3. RECOMMENDATION THAT AIMS TO ENABLE BUSINESS STAKEHOLDERS TO INVEST IN ENERGY TRANSITION

RECOMMENDATION 16

Business Chamber of Commerce and Industry/Business Association in cooperation with universities and specialized knowledge centers, must proactively engage in projects, initiatives, events, and training sessions that enable increased awareness of business community (focus SMEs) to expand their knowledges and upgrade their management capacities on energy related to (i) energy data and management (being able to correctly collect, manage); (ii) innovative solution for a sustainability culture that would meet both company 'priorities and stakeholders impacted by the business, best examples/practices; (iii) training on better understanding determining factors of investment such as the value of initial investment, period of return, security of energy supply, energy cost, etc.

RECOMMENDATION 17

Banks, scheme promoters and other financial institutions that gives credit to consider more attention to the promotion of energy innovative products and focus relevant capacity building of their staff in local level.

4. SUGGESTIONS

Note: The following issues are subject of further analysis as elaborated under Section D of Pillar II in Findings and Analysis

RECOMMENDATION 18

Amendment to article 27.3.b) of Law No. 9632, dated 30.10.2006 "On the local tax system", as amended, excluding the application of the "Infrastructure impact tax from new constructions" for all renewable energy sources, as defined in the article 3, of the Law No. 7/2017 "For promoting the use of energy from renewable sources".

RECOMMENDATION 19

Amendment to the Decision of the Council of Ministers No. 212, dated 20.04.2018 "For some additions and amendments in the Decision No. 953, dated 29.12.2014, of the Council of Ministers "On the implementing provisions of the Law No. 92/2014 "On Value Added Tax in the Republic of Albania", as amended", updating the list of machinery and equipment that are exempted from VAT on imports. The list of machinery and equipment should include all renewable energy sources, as defined in article 3 of Law No. 7/2017 "For promoting the use of energy from renewable sources". The exemption from VAT shall be applied regardless of the value of the investment as well as of the installed power capacity.

RECOMMENDATION 20

The Council of Ministers, through cooperation with the Energy Regulatory Authority, to adopt acts that enable the supply of electricity at the same unit/prices (considering the differentiated tariffs for network access) for all electricity customers connected to medium and high voltage, through the Supplier of Last Resort.

RECOMMENDATION 21

Good fiscal climate is very important. Efforts have been made in terms of the fiscal framework by MIE and MFE, but we would appreciate if the incentive through the removal of import VAT for photovoltaic equipment such as panels, transformers, inverters, and other equipment is taken into consideration. *(Suggested during the IC meeting by FIAA/Voltalia)*

RECOMMENDATION 22

Alternative sources of energy are considered with continuous interruptions from nature, since if the wind does not blow or the sun does not come out, no energy is produced, so energy storage is super important, but currently there is a lack of legal framework on battery energy storage. *(Suggested during the IC meeting by FIAA/Voltalia)*

RECOMMENDATION 23

According to building permits that must be granted by the National Territorial Council, acquire a long and quite bureaucratic process, we suggest that it should be considered for review. *(Suggested during the IC meeting by FIAA/Voltalia)*

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11. *Law No.116/2016 "On Energy Performance of Buuldings"*
12. *Law No.124/2015 "On Energy Efficiency"*
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14. *Law No. 43/2015,"On Electricity Energy Sector"*
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ANNEX 1
INSTITUTIONAL FRAMEWORK

1. THE MINISTRY OF INFRASTRUCTURE AND ENERGY (MIE)

» Responsible for the energy sector and is designated to prepare, periodically review, and update the National Energy Strategy.
» Develop energy policies and mid-term and long-term strategies for the energy sector; develop market reforms in the sector to meet the national objectives and comply with European Union (EU) directives;
» Formulate adequate legal framework; and promote energy efficiency, renewable energy resources and investments in the sector through enabling investment environments.

MIE is also responsible for granting authorization and concession rights for the construction of power plants in Albania. Concessions are approved by the Council of Ministers and undersigned by the energy minister on behalf of the contracting authority.

2. THE ENERGY EFFICIENCY AGENCY

» State-funded institution that reports to the MIE and is responsible for the preparation and monitoring of the implementation of the National Action Plan for Energy Efficiency, along with monitoring the implementation of energy efficiency programmes in residential and institutional building sectors, transport, industry, and agriculture.
» The agency also undertakes energy audits, provides certifications for energy auditors and advises on the preparation of bylaws that promote energy efficiency.

3. THE ENERGY REGULATORY AUTHORITY (ERE)

» Independent public body whose responsibilities include regulating activities in the electricity and natural gas sectors, developing and adopting electricity market rules while also monitoring all electricity market operations in Albania.
» ERE issues licenses for electricity generation, transmission, distribution, supply and trade. Electricity producers in Albania receive their approval of the grid codes by ERE for their operations and connections to the transmission and distribution networks.
» The authority adopts electricity tariffs, including Feed-in Tariffs (FiTs), to all eligible electricity producers from renewable sources. ERE also defines the standard purchase agreements of these producers.

ANNEX II

FINDINGS OF THE QUESTIONNAIRE OF THE IC SECRETARIAT

OBJECTIVE AND METHODOLOGY

OBJECTIVE

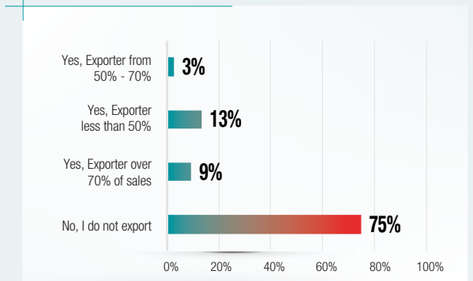
Exploring business opportunities in investing in energy efficiency and alternative sources of energy production

METHODOLOGY

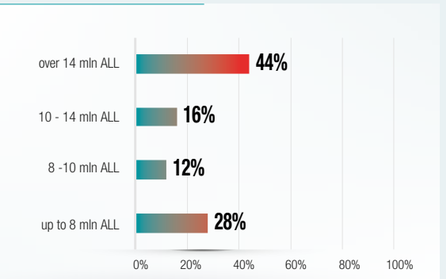
- Structured questionnaire
- 75 anonymous responses
- Reporting period: November 2022 – January 2023

SAMPLE PROFILE – 75 COMPANIES

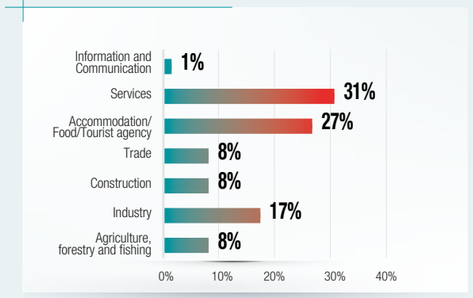
Are you an Exporter?



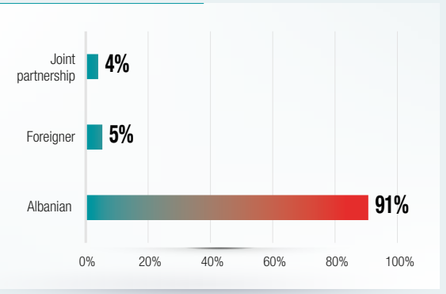
Size of your business according to last year's turnover



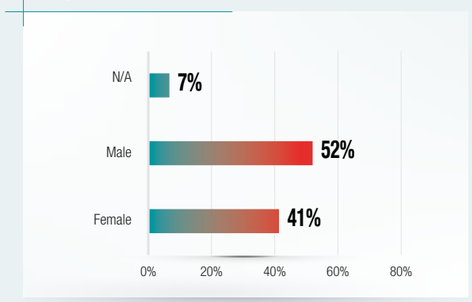
Main activity



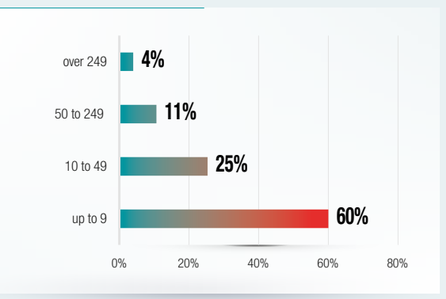
The largest shareholders/Partners (with over 50% of shares) of your business are:



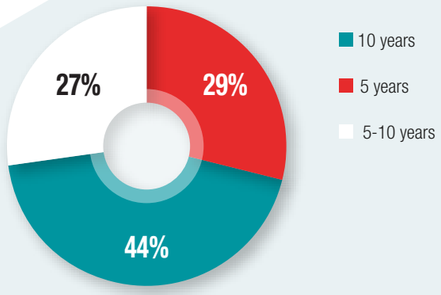
The largest shareholder/Partner/Owner of your business is:



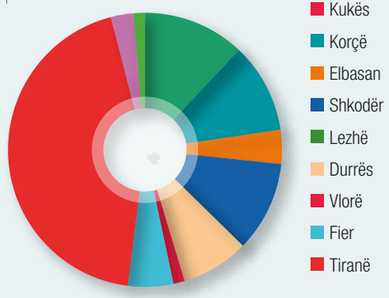
What is the average number of employees in your business?



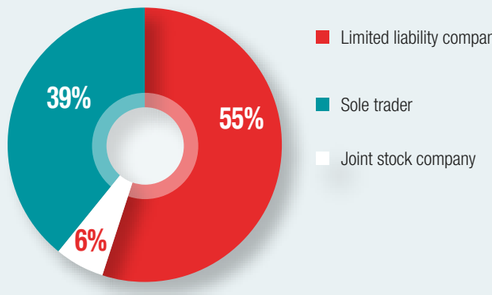
Company age



Where you carry out your activity



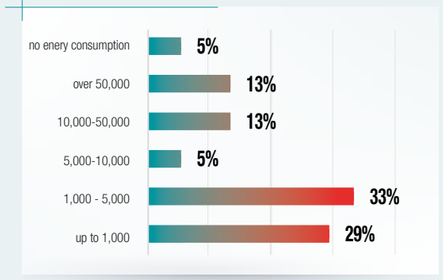
Business Type



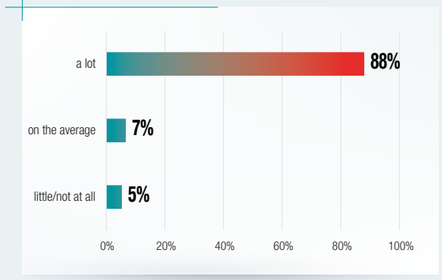
GETTING ENERGY AND CONSUMPTION

“ [88% of respondents](#) perceive a maximum impact of the power outage on their normal activity, underlining the importance of securing continuous sources of energy

Average energy consumption per month in kW:



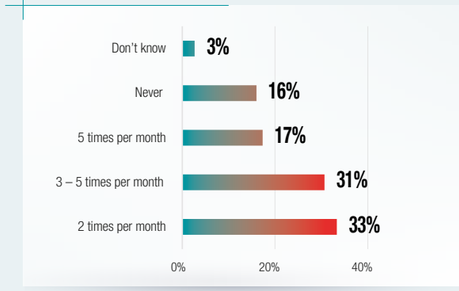
How much does the power outage affect your business?



“ [Only 16%](#) of the respondents state that they [have not had](#) any power outage during a month

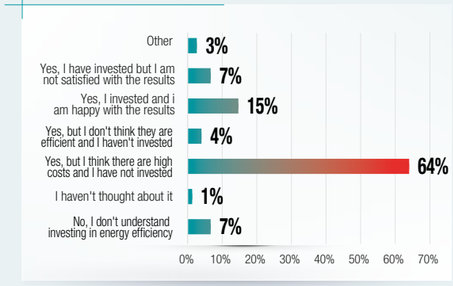
[While 64%](#) of them declare that they have had [up to 5 power outage during a month](#)

Have you had power outages, on average per month?



ENERGY EFFICIENCY

Have you considered the possibility of investing in energy efficiency?



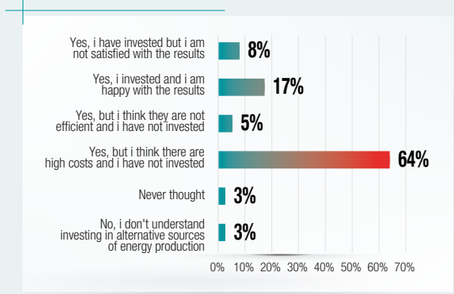
“ Business is informed and aware of cost reduction option from investing in energy efficiency *(9 out of 10 companies)*, [but the perceived high investment costs have prevented them from investing.](#)

1 in 5 companies declare that they have invested *(50% have a female owner)*, [but only 15% are happy with the result.](#)

Mainly [hotels and processing industry.](#)

ALTERNATIVE ENERGY SOURCES

Have you considered the option of investing in alternative sources of energy production?



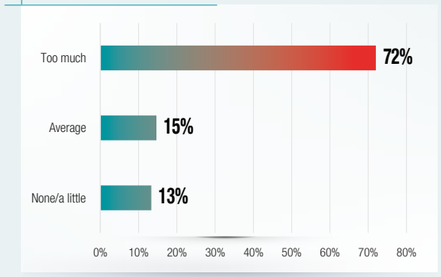
“ Likewise, business is informed and aware of the cost reduction option of investing in alternative energy sources (95% of them), [but 64% state that the perceived high costs have prevented them from investing and benefiting.](#)

25% state that they have invested (37% are female investors), [but only 17% are satisfied with the results.](#)

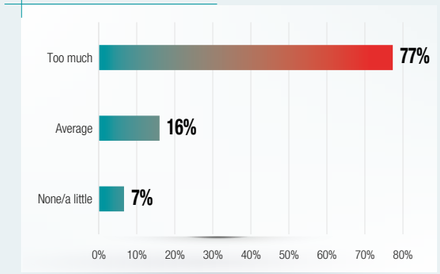
[Hotels and processing industry.](#)

DETERMINING FACTORS

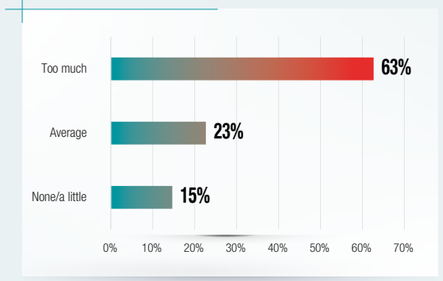
How much would **the initial investment value** influence your decision to invest in energy efficiency and/or alternative sources of energy production?



How much would **lower energy costs influence** your decision to invest in energy efficiency and/or alternative sources of energy production?



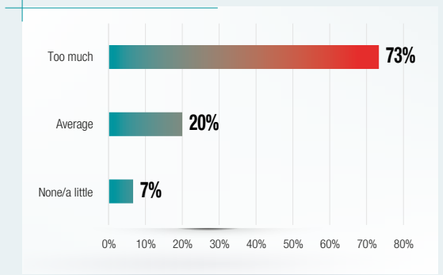
How much would **the payback period influence** your decision to invest in energy efficiency and/or alternative sources of energy production?



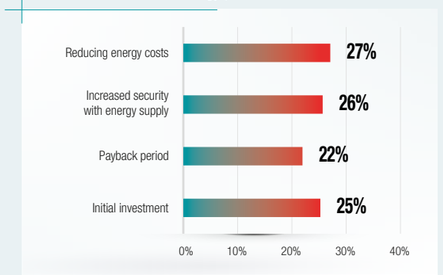
In the companies' decision to invest in energy efficiency/production, it seems that **cost reduction and increased security of energy supply** are the determining factors.

For female entrepreneurs, the most determining factors are the reduction of costs and the value of the initial investment.

How much would **increased security of energy supply** influence your decision to invest in energy efficiency and/or alternative sources of energy production?

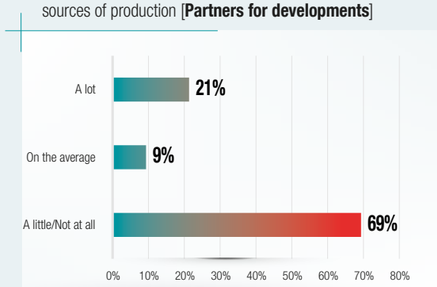


Which of the factors would most influence your decision **to invest in energy efficiency** and/or alternative sources of energy production?

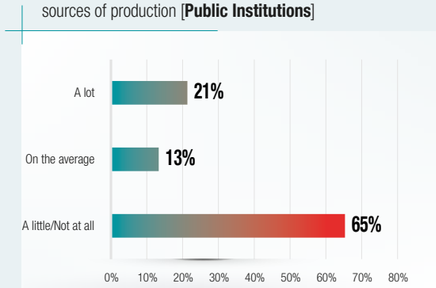


FINANCING FUNDS

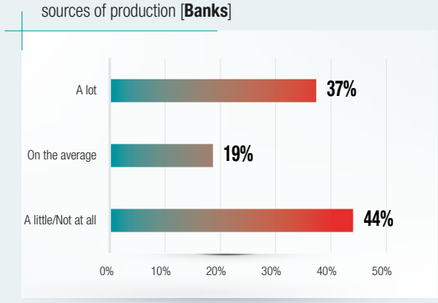
How familiar are you with the investment financing format in the field of multiple efficiency/or alternative sources of production [**Partners for developments**]



How familiar are you with the investment financing format in the field of multiple efficiency/or alternative sources of production [**Public Institutions**]

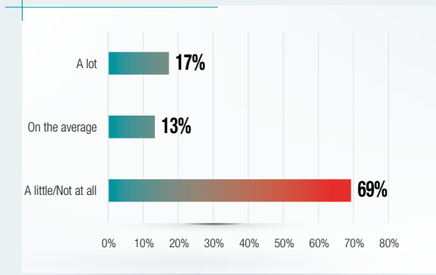


How familiar are you with the investment financing format in the field of multiple efficiency/or alternative sources of production [**Banks**]

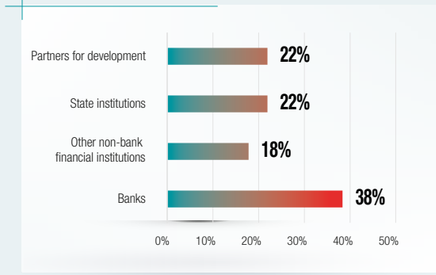


In terms of financing investments in energy, business is most familiar with banks; the same behaviour applies regardless of the gender of the entrepreneur.

How familiar are you with the investment financing format in the field of multiple efficiency/or alternative sources of production [**Other financial institutions not banks**]



With which are you most familiar with the forms of investment financing in the field of energy efficiency and/or alternative sources of energy production?



CONCLUSIONS

In the conditions of the global energy crisis, as well as the government's plans for the liberalization of the energy market, **the business has knowledge** of the possibilities of investing in **energy efficiency** or **alternative sources of energy production** as sources of securing continuous energy sources and cost reduction.

The business **suffers from constant power outages**, which cause problems in the smooth running of their business activity.

In general, **high initial investment costs have "impeded"** businesses in finalizing the decision to invest in energy efficiency and alternative sources of energy production.

Mainly, hotels and the processing industry have invested, although some consider the investment to be inefficient.

Reduced energy costs and increased security in energy supply are the decisive factors that would influence the decision to invest in efficiency/alternative sources of energy production; whereas the payback period is the factor that would have the lowest impact on making this decision.

Banks are the most well-known institution for energy investment financing opportunities.

ANNEX III

ANALYSIS ON LICENSING OF ALTERNATIVE SOURCES

1. LICENSING FOR ALTERNATIVE SOURCES (PROSUMERS)

Prosumer of electricity, based on *Law No. 7/2017 "For promoting the use of energy from renewable sources"*, is considered a small or medium-sized company, which may install a total capacity of up to 500 kW for the production of electricity **from wind or sun**. This capacity is intended to inject excessive electricity into the distribution network, based on the net metering scheme of produced and consumed electricity, calculated on monthly basis.

Prosumers of electricity, based on Article 37.6.b and 49.4 of the Law No. 43/2015 "On the electricity sector", as amended, are not subject to licensing procedures by the Energy Regulatory Authority as well as rules and procedures for the construction of new production capacities which are not subject of concession.

In articles 15.1 and 15.4 of Law No. 7/2017 "For promoting the use of energy from renewable sources", is stipulated:

15.1. In accordance with the metering scheme, a small or medium-sized company may install a total capacity of up to 500 kW for the production of electricity **from wind or sun** to cover part or all of the required electricity for its needs and to inject excessive electricity into the distribution network.

15.4. The Minister adopts, through a decision, a simplified procedure for the authorization of connection to the distribution system of small renewable energy projects.

From an analysis of the applicable legal basis, results that the primary legislation has clearly classified the production of electricity from the wind as production subject to the net electricity metering scheme (Article 15.1), by authorizing the minister responsible for energy to adopt the simplified procedure for the authorization of connection to the distribution system of wind power generation projects.

2. CONNECTION OF THE PROSUMERS TO THE NETWORK

Prosumers are connected to the electricity system by following the procedures stipulated in the Decision of the Ministry of Infrastructure and Energy No. 3, dated 20.06.2019 "For the approval of the simplified authorization procedure for connection to the distribution system of small renewable projects for prosumers of electricity from the sun". Based on this Decision, prosumers, in order to connect to the electricity system, should submit:

- List of documents for application to the municipality for photovoltaic plant:

» Ownership certificate and its status updated in the last 3 months (in case of renting, consent of the lessor/owner);
» Plan of the roof, terrace or land where the panels will be placed.
» Applicant ID, QKB extract and administrator ID.
» Plant layout, project and photo of the current state of the property.
» Electrical project, estimate and schedule of works.

- List of documents for application to OSSH for photovoltaic plant:

» Submission of the application form "For the net metering scheme".
» Declaration of the average annual consumption of the last two years or, in case of lack of history, the report of the energy auditor as well as the proposal for the installed capacity.
» The approved project for connecting the PV plant to the distribution network.
» Proposal on the model of the two-ways meter (net metering scheme), data on the main inverter and the characteristics of the meter located behind it;
» Technical report.
» License of the design engineer.
» Permission from the Municipality "Works that are carried out with a preliminary statement of works";
» Number of the existing contract without due obligations.

The application is processed within 30 working days from the submission date. The applicant, in case of approval, has 6 months to construct the photovoltaic plant. OSSH can disconnect the plant from the electricity system if proves that the production exceeds the consumption of electricity in a certain calendar year.

Until the adoption of the "Methodology for determining the price of the sale of surpluses to the Universal Service Supplier, charged with public service obligation", the monthly surpluses are transferred to the Universal Service Supplier without compensation.

ANNEX IV

FINANCIAL INSTRUMENTS AVAILABLE TO BUSINESS IN THE FIELD OF ENERGY

Financing businesses in the field of energy has been growing significantly, due to the situation created last year by the Russia-Ukraine conflict. The EU has been one of the main financiers in this direction. The EU has supported a more connected and cleaner energy market in the Western Balkans for many years. Between 2015 and 2020, the EU awarded €1 billion in grants to energy and transport projects channelled through the **Western Balkans Investment Framework (WBIF)**[34] – a donor investment platform that collects funds from various sources, including the European Commission. This brought tangible results – over 650 km of gas pipelines connecting the region to neighbouring EU countries, modernized district heating networks, improved electricity transmission lines and much more.

The EU is also very active in supporting regulatory and policy reforms to bring the region closer to the EU's internal energy market. Since 2006, the Energy Community – bringing together the EU and its neighbours – has worked to create a better climate to attract investment in energy production and networks.[35]

WBIF is a platform that supports socio-economic development and EU membership across the Western Balkans by providing finance and technical assistance for strategic investments in the **energy**, environment, social, transport and digital infrastructure sectors, as well as supporting development initiatives in private sector. It is a joint initiative of the EU, financial institutions, bilateral donors and the governments of the Western Balkans.

WBIF based on competitive procedures, awards grants for infrastructure project preparation activities as well as for investments. Calls for proposals are launched by the WBIF Steering Committee. In general, there are two calls for technical assistance and only one call for invest-

34 *List of projects that can be filtered by beneficiary country, sector, status, leader: https://www.wbif.eu/wbif-projects*

35 *https://webalkans.eu/en/themes/connectivity/energy/*

ment grants per year. Guidelines are published for each call for proposals setting out eligibility criteria, including any specific requirements, as well as pre-notification and submission deadlines. Applications are evaluated by the WBIF Project Funders Group, which recommends selected applications for approval to the Steering Committee. Approved grants are then implemented by Infrastructure Project Facility teams and/or themselves (IFIs).

WBIF finances the preparation and implementation of priority infrastructure projects through:

» Grants from the European Commission's Instrument for Pre-Accession Assistance (IPA) and 20 bilateral donors;
» Loans from financial institutions;
» National finances.

At the beginning, CEB, EBRD and EIB contributed to WBIF's grant activities.

Since 2009, WBIF has supported 43 projects for an estimated 3.2 billion euros of investments in the public sector in Albania. The country has benefited from 61 grants for 345.9 million euros in technical assistance and investment co-financing. EU IPA grant support channelled through WBIF is calculated at €326.8 million and covers both technical assistance (€52.8m) and investment grants (€293.1m). Other donors also contributed with 19.1 million euros.[36]

For the period 2009-2021, with the data of September 2021, WBIF has given 30.4 million euros grants for Albania specifically in the energy sector.[37]

The Western Balkans Enterprise Development & Innovation Facility (WB EDIF) initially began providing financing to Albania through its Guarantee Facility instrument, which was facilitated through **Procredit Bank**. After the successful deployment of the first round of financing, a second Guarantee Facility was signed with **Raiffeisen Bank Albania**. 666 SMEs have been supported in Albania by WB EIDF.[38]

As part of WBIF, the **Regional Energy Efficiency Program (REEP)**, supports SMEs, municipalities, households and citizens in reducing energy consumption, contributing to regional economic growth. REEP was established in 2012 and includes more than 600 million euros of investments from EBRD and KfW Banking Group, which are combined with grants from WBIF. Various organizations collaborate to make it a success, including the Energy Community, the EBRD, the European Commission and the KfW Banking Group.[39]

The Green for Growth Fund (GGF) helps businesses and households mitigate climate change by reducing energy consumption, resource use and CO2 emissions. According to the data updated until 30.06.2022, GFF in Albania has only one partner institution, which is a financial institution, namely BKT. The invested value is 25.0 million euros. The number of projects where GFF has provided technical support for Albania is 73 (5% of the total), reaching the value of 1.3 million euros (6% of the total).[40]

The Green Economy Financing Facility (GEFF) is a structure developed by the EBRD that offers a credit line of 85 million euros to participating banks in the Western Balkans for lending to qualified businesses wishing to invest in green economy projects. GEFF's local implementation team provides support at various stages of investment evaluation and implementation. This may include project assessments, training, marketing, and project start-up support to help beneficiaries identify the best solutions and prepare a successful green economy project. GEFF's advisory services are funded by the EU, WBIF and the Republic of Austria[41], and capture a credit line of 3 million euros helping families invest in high-performance technology by securing financing through local Participating Financial Institutions, namely ProCredit Bank and Union Bank (Funding is subject to the usual creditworthiness and other funding criteria of each Participating Financial Institution.)[42]

On 03.05.2019, GEFF and the Besa Fund undertook a campaign with some of the administrators of the buildings in the premises of the Municipality of Tirana to present to them the possibility of obtaining a loan as well as the way to benefit from this loan for investments in the amount of 1.5 million euros from 3.0 million euros dedicated by GEFF for Albania.

On 03.05.2019, GEFF and the Besa Fund undertook a campaign with some of the administrators of the buildings in the premises of the Municipality of Tirana to present to them the possibility of obtaining a loan[43] as well as the way to benefit from this loan for investments in the amount of 1.5 million euros from 3.0 million euros dedicated by GEFF[44] for Albania.[45]

The EBRD provides a 6-million-euro loan to Union Bank Albania for increasing energy efficiency as support for investments in high-performance energy efficiency projects in privately owned housing or residential buildings.[46]

The European Fund for Southeast Europe (EFSE) is an impact fund that takes a comprehensive approach to fostering economic development and prosperity in Southeast Europe and the EU's Eastern Neighbourhood Region. By investing in the local financial infrastructure that provides dedicated financing to micro, small and medium enterprises, the fund supports the backbone of the economy of these regions. In addition, EFSE helps create the conditions for local businesses to thrive by building the capacity of local financial institutions or facilitating knowledge sharing through the Development Facility and providing on-the-ground training and mentoring through the Entrepreneurship Academy. In this way, the fund aims to achieve both individual and systemic impact.

Regarding Albania, it is worth noting that there is only one partner "FED Invest" with a cumulative volume of sub loans in the amount of 120,342,847 euros and with 537 active end borrowers. While the volume of the Development Facility project captures the value of 3,347,072[47] euros. It is worth noting that 9.4% of the total EFSE technical support projects since the beginning of the EFSE Development Instrument in 2006 until December 31, 2021 have been for Albania.[48]

36 https://www.wbif.eu/beneficiaries/albania

37 https://wbif.eu/storage/app/media/Library/FactSheets/ALB/WBIF%20Country%20Summary%20Albania%20ENG.pdf

38 http://www.whedif.eu/whedif-in-your-country/albania/#map

39 https://www.wbif.eu/reep

40 Note: * Since some of the projects are developed in several countries, the sum of the total number of projects exceeds the total number of projects.

41 https://ebrdgeff.com/albania/en/ https://ebrdgeff.com/albania/en/the-programme/

42 https://ebrdgeff.com/albania/en/the-programme/stakeholders/

43 https://ebrdgeff.com/albania/en/ebrd-geff-dhe-fondi-besa-takojne-koordinatoret-e-administratoreve-te-ndertesave-te-banimit-ne-tirane/

44 https://ebrdgeff.com/albania/en/grant-support/

45 https://ebrdgeff.com/albania/en/western-balkans-geff-marks-first-disbursement-in-albania/

46 https://ebrdgeff.com/albania/en/ebrd-lends-e6-million-to-union-bank-to-boost-green-energy-investments-in-albania/

47 https://www.efse.lu/

48 https://www.efse.lu/fileadmin/user_upload/efse/7_publications/publications_dateien/sektion_3_-_publications/impact_reports/EFSE_Impact_Report_Digital_2022.pdf

Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) is another institution that has had a major focus on the energy sector. In Albania, it has been focused on two primary issues:

1. Sustainable Economic Development, professional training and job promotion;
2. Climate, Energy and Transition, including Sustainable Urban Development.

Energy has been the main issue at the end of last year and this year, with an emphasis on renewable sources. The largest contribution to infrastructure in the energy sector is made through the **German Development Bank (KfW)**. GIZ has many projects related to energy efficiency.

GIZ has supported central and local government to increase capacity and provide more tools for energy saving monitoring and verification at the national level. This project supported micro-scale photovoltaic systems in remote and off-grid areas to provide basic lighting and electricity needs.

GIZ is supporting municipalities for the **Sustainable Energy and Climate Action Plan 2030**. These plans will provide a clear path for municipalities to achieve their climate targets, an important part of which is the expansion in Renewable Energy Sources. GIZ provides the best expertise in the design of plans and supports municipalities during implementation through pilot projects.

According to GIZ, self-production, as a scheme in Albania, is still developing and although the regulatory framework has not been fully adopted, there has been an increase in interest from public and private institutions to invest, especially when the energy crisis just started.[49]

The **Women in Business program**, with **EBRD** support, provides financing to local banks through dedicated credit lines for women-run SMEs, along with business consultancy to help them become more competitive, and provides training , mentoring and other support to enable women leaders to share experiences and learn from each other as colleagues.

In 2019, through second level banks, crediting began with 5 million euros for Albania under the Women in Business II Program for the Western Balkans of the EBRD.

The International Finance Corporation (IFC) is assisting potential investors in evaluating, structuring and implementing projects in Albania and in providing loans and equity investments, including financing from other sources.

IFC is increasing its involvement in Albania to:

» Increase the support of the financial sector;
» Seek opportunities to finance private sector investments in infrastructure and to undertake selective financing of critical infrastructure investments;
» Provide financial and technical assistance to SMEs in the post-privatization phase;
» Rehabilitate key industrial sectors such as oil and gas, mining and related industries, and construction materials;
» Support the development of various sectors where Albania has comparative advantages such as light manufacturing, fishing and tourism.[50]

At the request of the Government of Albania to increase the share of solar thermal energy in the country, **UNDP** and **GEF** support solar water heating technology through legal and market-based instruments. UNDP has collaborated with the **Ministry of Energy and Industry** and the **Ministry of Environment** for this purpose.

The initial idea of the project came from the **National Energy Strategy** and previous climate change studies such as the First National Assessment of Communication and Technological Needs of Albania, which promote and recommend Solar Water Heating (SWH) as one of the promising technologies to reduce electricity and the consumption of wood for fuel with a significant contribution to the reduction of greenhouse gas emissions.[51]

Initiatives from state institutions in the country - In addition to the opportunities mentioned above, there are also some others that have been initiated by state institutions that aim to stimulate these investments in specific sectors.

Among these initiatives we can mention the "National Scheme" for financial support for agriculture and rural development from the budget of the Albanian Government. The fund approved in the 2020 budget for the *Ministry of Agriculture and Rural Development*, the item "Transfer to family budgets", will be used to increase the competitiveness of livestock products, agricultural products in protected environments and reduce production costs. This scheme has been implemented by the *Rural Agricultural Development Agency*.

Access to funds from the financial sector

Currently, most banks in the country have included specific packages for loans in the field of energy for businesses, but the amounts are very low or negligible. In order to make possible an analysis of the current situation, all banks were contacted and in cases where such programs appeared, meetings were also held with representatives of the relevant directorates in the banks to better understand the situation. Among the banks involved in granting loans for photovoltaic systems, we can mention:

» Intesa Sanpaolo Bank - is one of the banks that in recent years has been very active in terms of loans for investments in photovoltaic panels. During 2022, 42 projects with a value of 8.8 million euros have been disbursed, 13 more are in process with a value of 3.3 million euros and 13 more have been rejected with a value of 2.6 million euros. Meanwhile, during 2021, only 22 projects with a value of 4 million were disbursed. All these projects are awarded to private businesses.
» Procredit Bank[52] – is also active in renewable energy. More specifically, some of the most concrete initiatives are related to:
  o Creation of electrical stations - in this framework, 26 electrical stations were created.
  o Investments in photovoltaic panels where currently there are 139 supported projects with a capacity of 38 MW. Loans granted for these investments have a maximum term of 7 years with 100% of the financing value. Moreover, in this framework there is also an agreement with the EBRD, of which there are 50 million euros in the tourism and agribusiness sector and 3 million euros for SMEs, which also includes investments in photovoltaic panels.

49 *https://www.monitor.al/shqiperia-potencial-per-rritje-nga-agroturizmi-tek-energjia-2/*

50 *http://web.worldbank.org/archive/website01337/WEB/0__CO-22.HTM.tmp*

51 *https://www.undp.org/albania/projects/country-program-albania-under-global-solar-water-heating-market-transformation-and-strengthening-initiative*

52 *https://www.procreditbank.com.al/shq/klientet-e-biznesit/kredite/kredi-per-panele-fotovoltaike/*

- Tirana Bank[53] - has a focus on lending for photovoltaic panels. The investment is covered at 100% of the value with a maximum value of up to 150 thousand euros and a maturity of 5 years.
- National Commercial Bank[54] – has specific energy efficiency loans for individuals and businesses.
- Union bank[55] – also provides loans for photovoltaic panels. The investment is covered at 100% of the value with a maximum value of up to 500 thousand euros and a maturity of up to 7 years. The capacity of the panels for personal use is a maximum of 500 kilowatts.
- As part of this loan, the bank also offers a sale contract, the financial offer and the offer with the technical specifications together with the system guarantee, as well as consultancy for the panel capacity and maintenance for the system.
- OTP Bank Albania[56] - in cooperation with the EBRD and the EU has recently started a new program in support of SMEs that offers loans from the EBRD and grants from the EU. Among other things, SMEs can apply for investments aimed at increasing energy efficiency and aligning with EU standards. In addition to loans, businesses will benefit from incentives in the form of grants up to 15 percent of the loan, financed by the EU.

In addition to banks, there are other financial institutions that are involved in this sector, such as Iutecredit, Besa fund, etc.

Evidence of supporting programs through EU grants

The European Union is increasingly focusing on the energy sector and environmental protection. More specifically, the EU is implementing the Energy and the Green Deal, which captures a value of around 600 billion euros for the 7-year period.[57]

Also, within the Horizon Europe 2021-2027 Program, there is a specific category focusing on energy "Cluster 5: Climate, Energy and Mobility", where institutions from Albania can also apply for funds. These calls are a very good opportunity to build bridges of cooperation between private actors, state units and academia. Currently, a number of calls for grants under this Cluster are open, which are a very good opportunity to undertake joint initiatives between interest groups.

53 https://www.tiranabank.al/d/818/kredi-per-panele-fotovoltaike

54 https://www.bkt.com.al/en/need-loan/collateralized-loan/green-loan

55 https://www.unionbank.al/kredia-per-panele-fotovoltaike/

56 https://www.otpbank.al/sq/otp-bank-albania-ne-bashkepunim-me-berzh-dhe-be/

57 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/energy-and-green-deal_en

ANNEX V

ANALYSIS ON THE RETURN PERIOD OF THE INVESTMENT FOR SMES

The assessment of return on investment in the energy sector is regulated and varies by county. Table 1 provides detailed information for three Counties in the country. Tirana was selected because of the high number of businesses and as a district that is in the average level of radiation in the country, while Shkodra and Fieri were selected because of the two extremes of solar radiation, Shkodra with the lowest radiation level and Fieri with the highest radiation level in the country.

Assessments have been made for several energy bands specifying the level of investment needed. Since most banks grant loans for photovoltaic panels up to 7 years, this is the period taken to evaluate the loan instalment, while the interest rate was 7% according to the conditions of the banks that offer loans. Based on this information, the monthly instalment and the total value of the loan have been estimated, which can be compared with the value of the energy bills currently paid by businesses. In the second scenario, information was obtained from the current payment made by businesses according to the relevant band for electricity, as well as the total value and the period they would need if they received a loan under these conditions.

From table xxx, referring to the case of the district of Tirana, it appears that businesses that consume less than 2000 kwh/year are disadvantaged by investments in photovoltaic panels since the loan instalment is higher than the monthly payments that businesses make. On the other hand, businesses that are between 2,000 and 5,000 kwh/year are almost at the same level of paying the loan instalment as paying the electricity bill, and for all businesses that consume more than 6,000 kwh/year there is a very large interest for businesses to be involved in investing in photovoltaic panels.

The same analysis can be done for the other two counties and for all other counties that fall within these intervals. More detailed information on consumer categories according to bandages is given in Table 2.

Table 1. Financing energy investments, Scenarios

	Energy bands (kwh/year)	Installed power	Investment	SCENARIO 1 - 7 years repayment period			SCENARIO 2 - according to the energy bill		
				Instalment	Total amount of payment	Repayment years	Instalment	Total amount of payment	Repayment years
TIRANE	0-1000	8	(1,380,000)	20,828	1,749,543	7 years	14,000	2,059,583	12 years and 3 months
	2000-5000	41	(6,129,500)	92,511	7,770,889	7 years	91,300	7,800,873	7 years and 1 months
	6000-15000	122	(14,030,000)	211,750	17,787,025	7 years	273,900	16,715,643	5 years and 1 months
	20000-40000	325	(23,172,500)	349,735	29,377,751	7 years	730,400	25,699,102	2 years and 11 months
	50000+	406	(28,947,800)	436,900	36,699,590	7 years	2,334,000	30,135,943	1 years and 1 months

	Energy bands (kwh/year)	Installed power	Investment	SCENARIO 1 - 7 years repayment period			SCENARIO 2 - according to the energy bill		
				Instalment	Total amount of payment	Repayment years	Instalment	Total amount of payment	Repayment years
SHKODER	0-1000	9	(1,552,500)	23,431	1,968,236	7 years	14,000	2,505,519	14 years and 11 months
	2000-5000	45	(6,727,500)	101,536	8,529,024	7 years	91,300	8,819,001	8 years and 1 months
	6000-15000	134	(15,410,000)	232,578	19,536,569	7 years	273,900	18,731,995	5 years and 8 months
	20000-40000	358	(25,525,400)	385,247	32,360,722	7 years	730,400	28,628,654	3 years and 3 months
	50000+	447	(31,871,100)	481,020	40,405,706	7 years	2,334,000	33,308,929	1 years and 2 months

	Energy bands (kwh/year)	Installed power	Investment	SCENARIO 1 - 7 years repayment period			SCENARIO 2 - according to the energy bill		
				Instalment	Total amount of payment	Repayment years	Instalment	Total amount of payment	Repayment years
FIER	0-1000	9	(1,380,000)	20,828	1,749,543	7 years	14,000	2,059,583	12 years and 3 months
	2000-5000	38	5,681,000)	85,742	7,202,287	7 years	91,300	7,078,399	6 years and 6 months
	6000-15000	113	(12,995,000)	196,129	16,474,868	7 years	273,900	15,258,090	4 years and 8 months
	20000-40000	303	(21,603,900)	326,061	27,389,103	7 years	730,400	23,783,360	2 years and 9 months
	50000+	378	(26,951,400)	406,769	27,389,103	7 years	2,334,000	27,983,354	1 year

Source: Experts Calculations

Table 2. Data as per region

No	County	Interval	kwh/year	kwp	Calculation	The consumer
1	TIRANE	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	41	53300	consumer TU 0.4 kV - 16.8
		6000-15000	180000	122	122000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	325	201500	consumer TU, Measurement TM - 14.88
		50000+	600000	406	251720	consumer TM - 22.56
2	DURRES	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	41	53300	consumer TU 0.4 kV - 16.8
		6000-15000	180000	123	123000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	329	203980	consumer TU, Measurement TM - 14.88
		50000+	600000	412	255440	consumer TM - 22.56
3	BERAT	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	42	54600	consumer TU 0.4 kV - 16.8
		6000-15000	180000	125	125000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	333	206460	consumer TU, Measurement TM - 14.88
		50000+	600000	417	257920	consumer TM - 22.56
4	ELBASAN	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	41	53300	consumer TU 0.4 kV - 16.8
		6000-15000	180000	122	12200	consumer TU 0.4 kV - 16.8
		20000-40000	480000	326	202120	consumer TU, Measurement TM - 14.88
		50000+	600000	408	252960	consumer TM - 22.56
5	KORCE	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	40	52000	consumer TU 0.4 kV - 16.8
		6000-15000	180000	119	119000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	318	197160	consumer TU, Measurement TM - 14.88
		50000+	600000	397	246140	consumer TM - 22.56
6	LEZHE	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	40	52000	consumer TU 0.4 kV - 16.8
		6000-15000	180000	119	119000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	318	197160	consumer TU, Measurement TM - 14.88
		50000+	600000	397	246140	consumer TM - 22.56
7	SHKODER	0-1000	12000	9	13500	household consumer 11.4-50.4
		2000-5000	60000	45	58500	consumer TU 0.4 kV - 16.8
		6000-15000	180000	134	134000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	358	221960	consumer TU, Measurement TM - 14.88
		50000+	600000	447	277140	consumer TM - 22.56
8	VLORE	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	41	53300	consumer TU 0.4 kV - 16.8
		6000-15000	180000	122	122000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	325	201500	consumer TU, Measurement TM - 14.88
		50000+	600000	406	251720	consumer TM - 22.56
9	FIER	0-1000	12000	8	12000	household consumer 11.4-50.4
		2000-5000	60000	38	49400	consumer TU 0.4 kV - 16.8
		6000-15000	180000	113	113000	consumer TU 0.4 kV - 16.8
		20000-40000	480000	303	187860	consumer TU, Measurement TM - 14.88
		50000+	600000	378	234360	consumer TM - 22.56

Albania Investment Council

Improving Transparency and Investment Climate

ABOUT INVESTMENT COUNCIL IN ALBANIA

The Investment Council facilitates the development of mutual trust between the business community and the government in Albania and contributes to an incremental institutionalization of effective policy dialogue. It contributes to the national reform and economic transition process by enhancing institutions, laws and policies that promote market functioning and efficiency.

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REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANCAVE DHE EKONOMISË

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