Albania Investment Council

Improving Transparency and Investment Climate

SMEs CHALLENGES

- Transitioning to Alternative Energy Sources

Investment Council Meeting
31 January 2023

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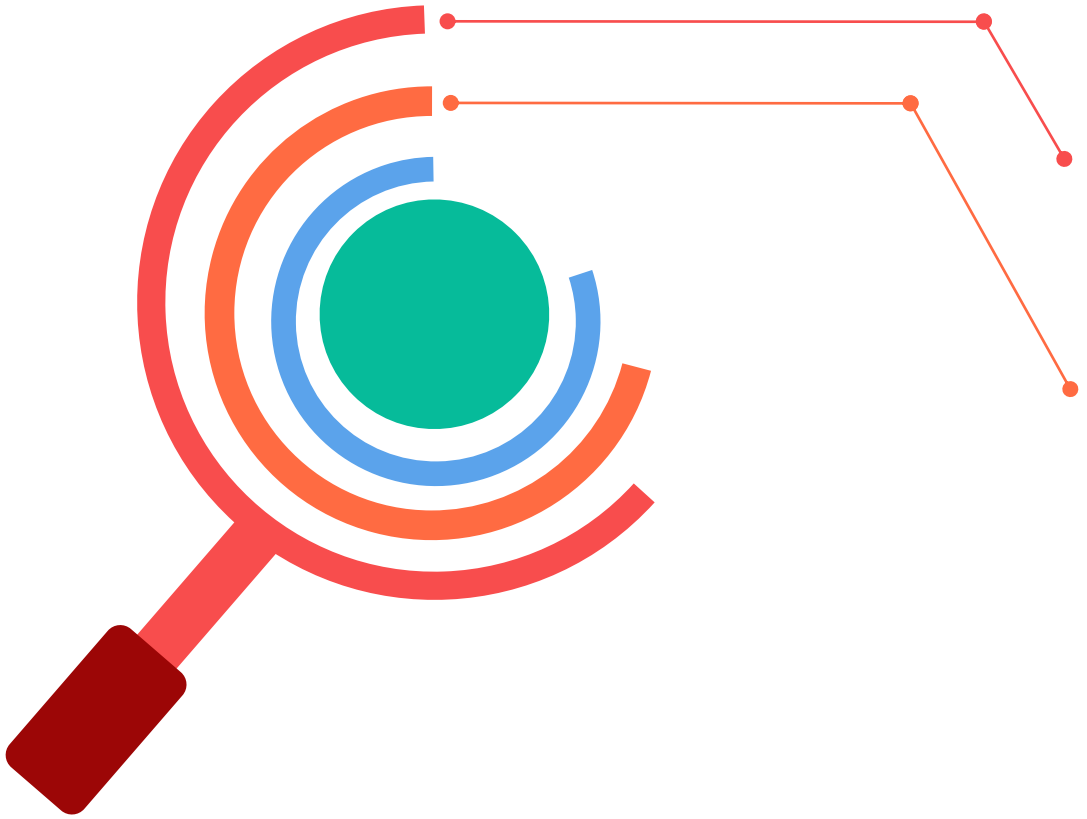
OBJECTIVE



Stimulating dialogue on the challenges of SMEs with relation to investments in alternative sources of energy, with a focus on:

***a) Quality of supply** and factors influencing decision making*

***b) Knowledge** about access to finance*

***Prioritizing interventions** to address entrepreneurs' uncertainties within the dynamics of the energy market and the Green Agenda.*

METHODOLOGY

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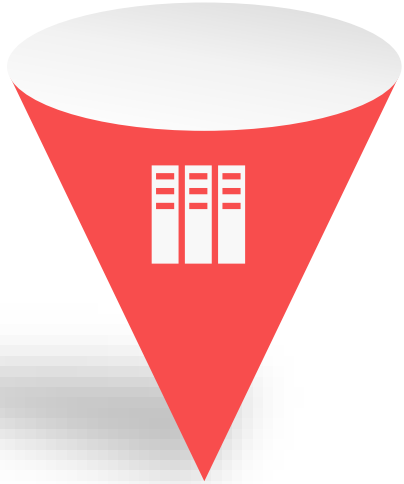
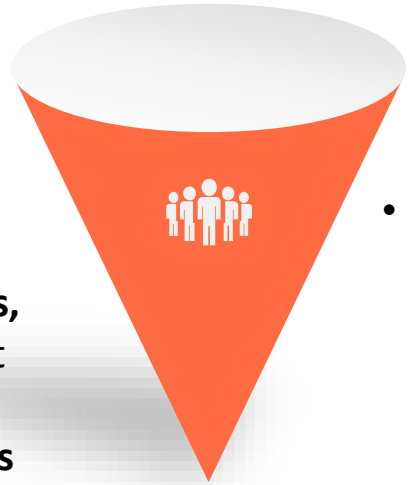


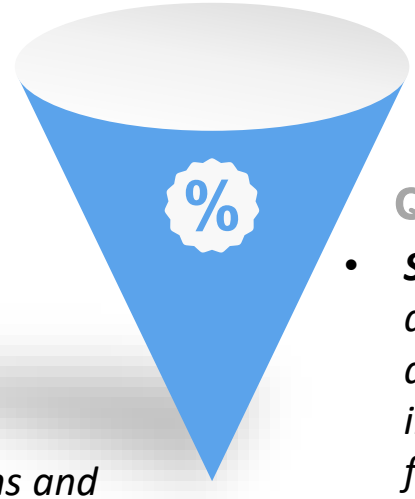
Desk-research

- **reports, laws/bylaws,** strategy, government vision
- **Official data analyses**
- **Synthesis** of up-to-date findings and recommendations
- **To date** work of the Secretariat on energy issues



Consultations

- ***4 focus groups*** *with business associations and chambers of commerce, experts, selected institutions at the technical and political level, NGOs, development partners, academia, etc. (47 participants)*
- **Face-to-face meetings** with 10 companies in Tirana, Vlora, Korça, Durrës



Questionnaire

- ***Structured interviews*** *with a focus on challenges (cost and quality of energy investments (responses from 23 entities)*
- ***Questionnaire for companies*** *exploring business knowledge on opportunities to invest in energy and their familiarity with funding sources (75 responses)*
- *Tourism and processing industry*

CONTEXT

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ALBANIA EU PROGRESS REPORT (2022)

There **is progress** in the legal framework for energy efficiency, but the missing acts still **need to be adopted.**

Regarding renewable energy, Albania has approved the amendments to the 2017 law in January 2021, but **the agency** responsible for renewable energy **has not yet been established.**

IRENA 2021

Creating **energy security**, **sustainability** of the energy sector and a **guaranteed supply** at competitive prices are **some of the main** challenges that the country must address in the short term.

The challenges **can be met** by **further increasing** the share of renewable energy in the country's electricity sector in a diversified manner.

UNECE (2021), EBRD (2022)

UNECE (2021): Albania was one of the first countries in SEE to introduce auctions for renewable energy projects and has since successfully tendered PV projects at competitive prices.

EBRD (2022): Albania was the first in the region to adopt the framework that provides for the stimulation of non-hydro renewable resources and energy efficiency measures to reduce greenhouse gases.

National Reports

ERP refers to the objectives of the National Energy and Climate Plan for increasing the amount of renewable energy in final consumption by 59.4% in 2030 compared to 54.4%.
BIDS 2022-2027 does not contain sectoral alignment, but emphasizes that energy production from renewable sources **should be considered a strategic advantage** for the country.

CONTEXT – CHALLENGES

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Importance

Electricity supply in Albania **is almost entirely dependent on hydropower plants**, 98% of electricity production comes from hydropower plants, completely dependent on weather conditions and the water regime of rivers and springs.

The large fluctuation of the production of hydropower plants constantly leads to the need to import electricity, **making Albania a net importer of energy.**

Market

Electricity in Albania is produced by the **Public Production Corporation**, as well as by other entities such as **priority producers, independent producers** and **self-producers** of electricity.

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 Power Exchange - ALPEX) is in the final procedures.**

Contribution

In 2020, the contribution of the energy sector to the economy was 2.37% of GDP.
Referring to the National Energy Sector Strategy 2030, **the annual demand for energy in Albania is expected to increase by 77% in 2030** compared to the levels of 2018.
The transport sector is projected to be the largest consumer of energy, followed by residential, industrial and utility sectors.
The highest growth in energy demand will be observed in the services sector.

THE ECOSYSTEM

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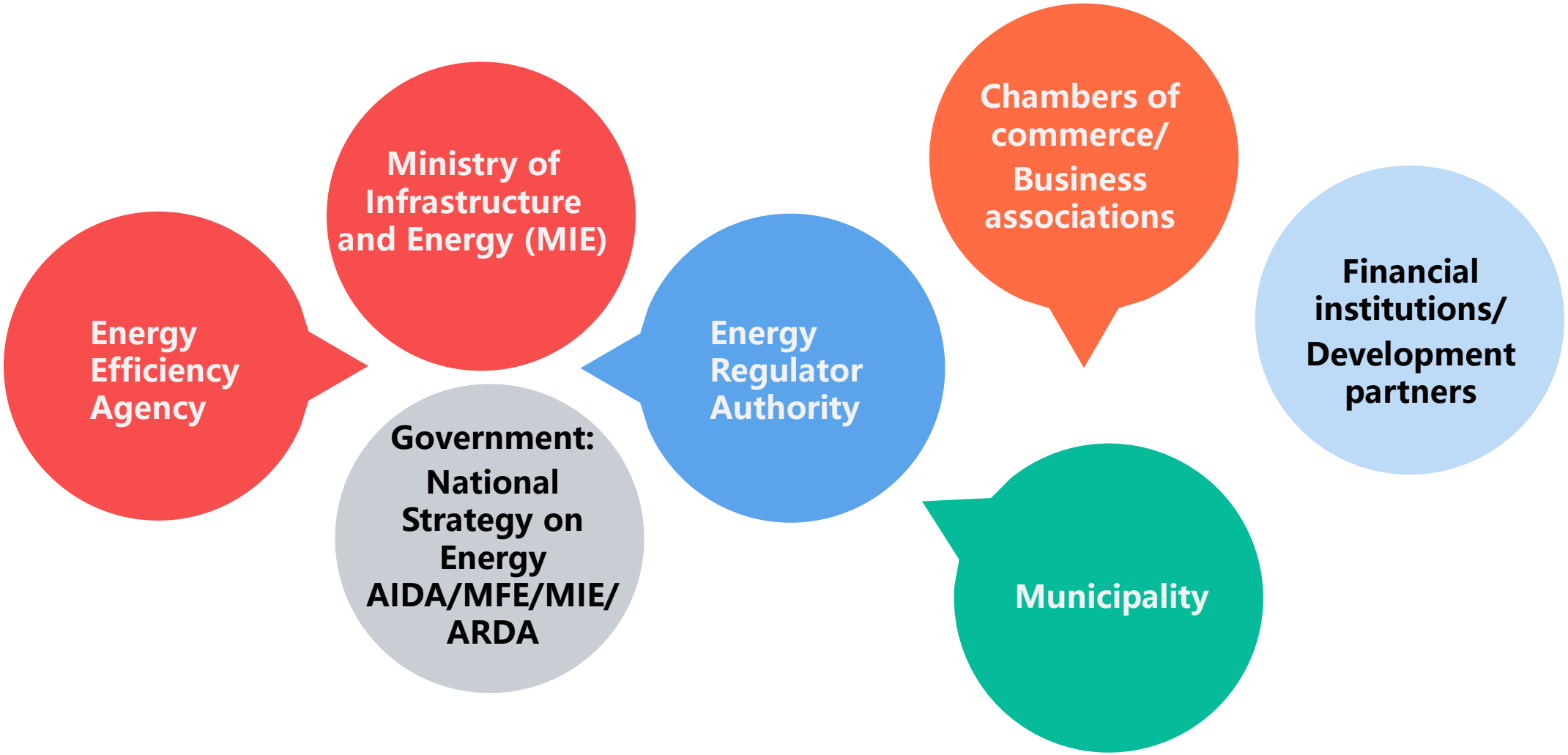
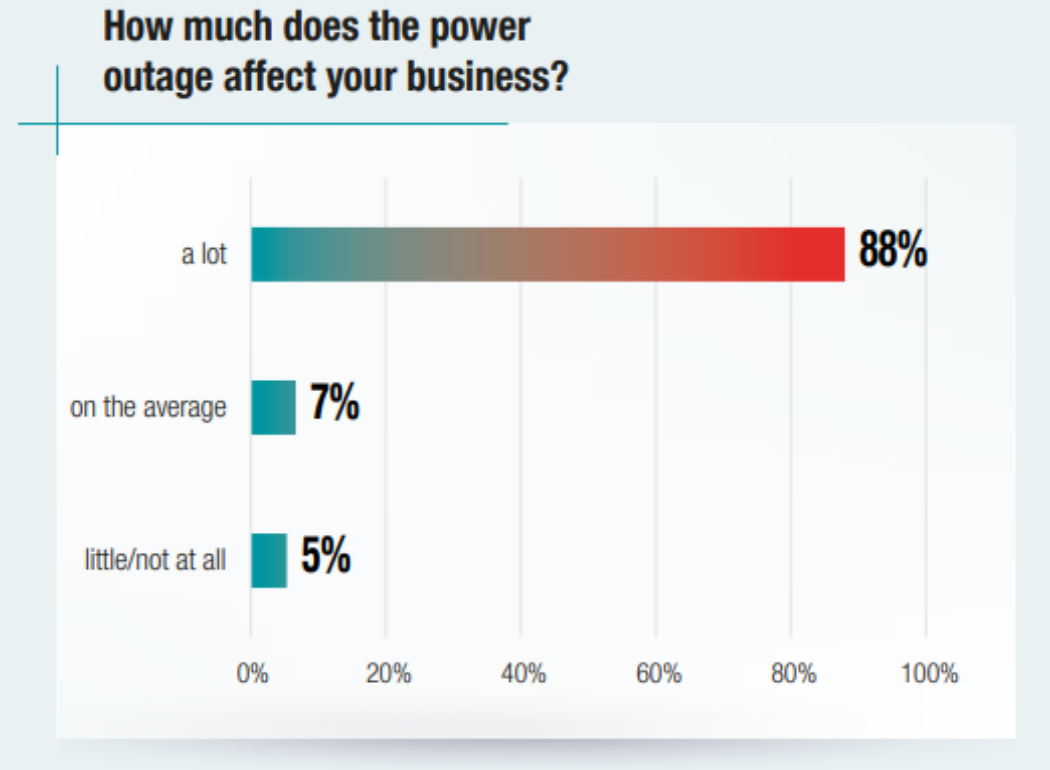
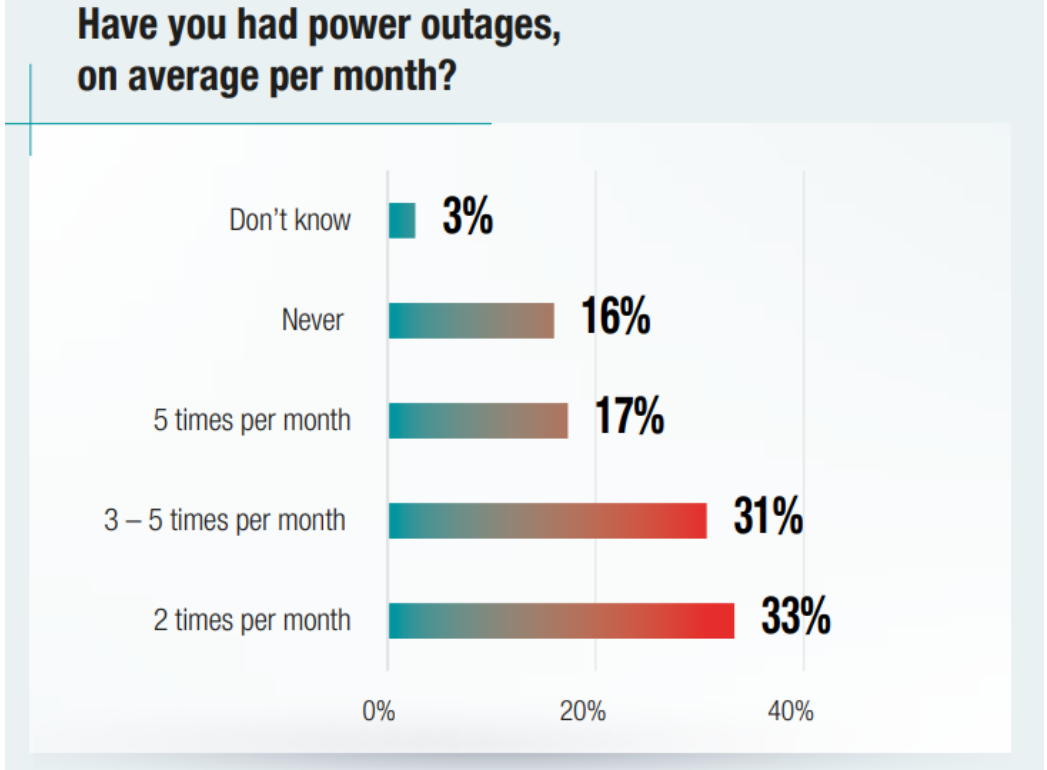


MAIN FINDINGS

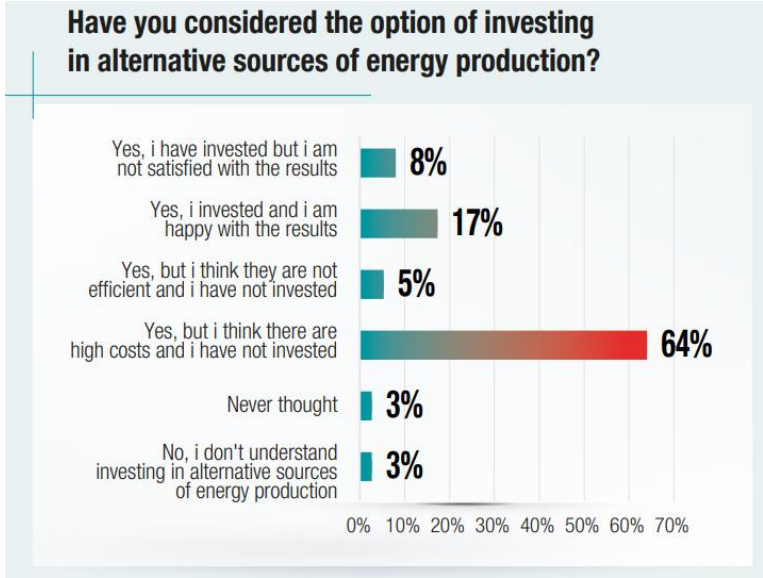
- BUSINESS ON SECURING ENERGY SUPPLY

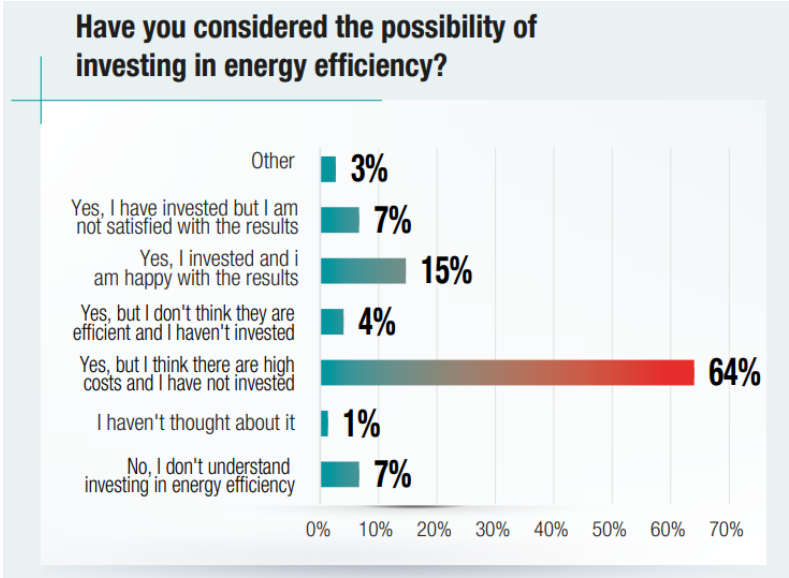


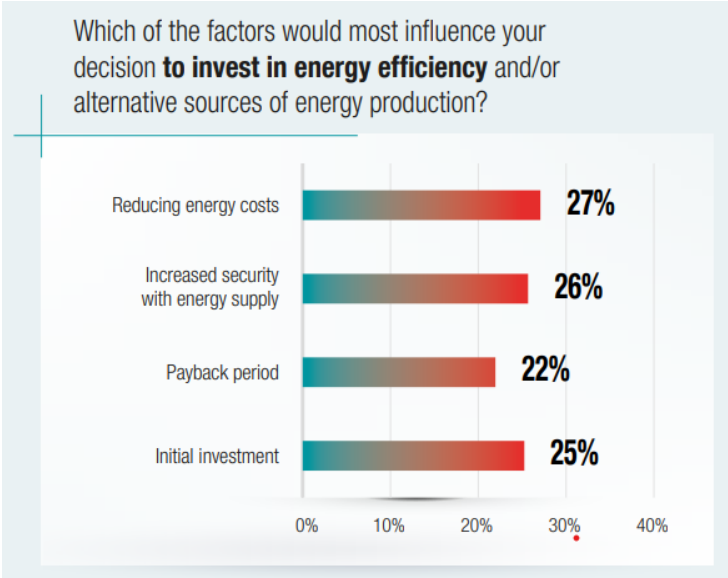


MAIN FINDINGS

- ENTERPRISE ON SECURITY OF ENERGY SUPPLY







The private sector is aware of other alternative sources of energy production

- **9 out of 10 companies have information on alternative sources**
- **22% of them have invested although with different opinions about effectiveness**

Energy efficiency, as a form of energy cost reduction, is well recognized by businesses (95%)

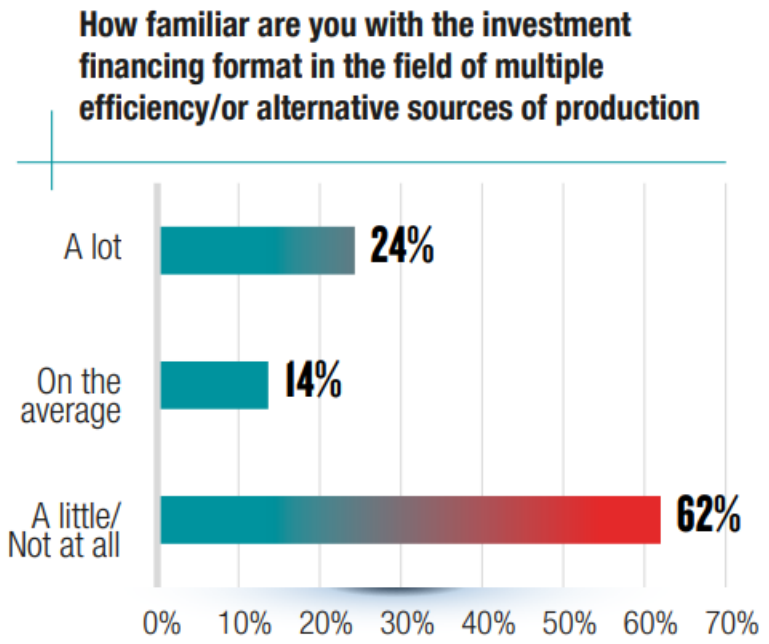
- **1 in 5 companies has made some investments in this direction**

A company's decision to invest in energy efficiency and/or alternative energy sources is mainly influenced by:

- **the ability to reduce the cost of energy**
- **secure power supply**

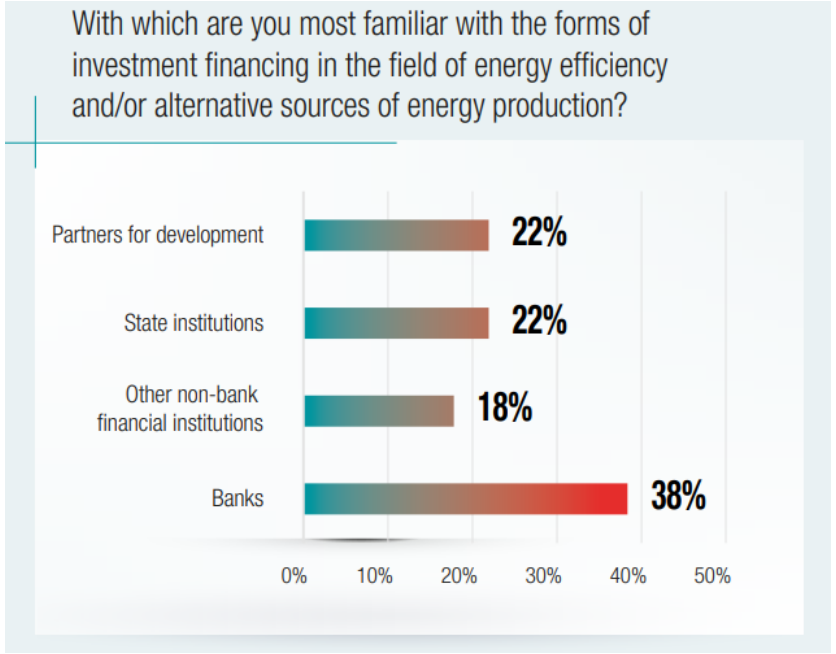
MAIN FINDINGS

– ENTERPRISE ON SECURITY OF ENERGY SUPPLY



There is a lack of information on alternative investment opportunities in renewable energy

- **62% of the interviewed companies declare that they have none or little information**



Banks are perceived as the most popular investment channel used by the private sector to finance their investments in energy efficiency and/or alternative sources of energy production

- **38% of companies declare that they recognize banks as the main source of financing**
- **Meetings confirmed that Procredit Bank had a very flexible and well-built credit line in this regard.**

INSTITUTIONAL PERSPECTIVE

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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**

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, must also consider

- **the limited capacities** of the distribution network,
- **its necessity for investments** (limited in recent years by successive crises) and
- **the budgetary strain** for maintaining the stabilized price for consumers

Several dynamics and initiatives are evident in the field of consumption optimization, projects to:

- **support and encourage** families who install solar panels (70% grant for the investment cost)
- **energy saving by public institutions** (the appointment of energy administrators)
- **promote energy efficiency in buildings**

- ADRA (2018-2022), 24 projects (5,94 milion grant)

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 renewable sources.**

FINDINGS

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SMEs' Awareness of Energy Security Sources

There is awareness about alternative sources of energy production and energy efficiency

Uncertainty on **whether to reduce costs and secure energy supply**—determining factors in investment decision-making

MAIN FINDINGS

- GREEN AGENDA AND ENERGY EFFICIENCY AS A PRIORITY

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LEGAL AND REGULATORY

- There is progress, **but there is still a need to improve the legal and regulatory** framework (primary & secondary) that optimizes investments in renewable energies (*e.g., netting scheme, determining the price of surplus, etc.*);
- **Lack of secondary legislation** supporting the construction of **wind farms** for self-consumption purposes**;**
- **Inconsistency** between the legal provisions related to the maximum installed power available to the self-producer (unification up to 1MW);
- **The inability to trade "green certificates" and "guarantees of origin**" in a regional market prevents renewable resource procedures from accessing additional financial resources
- **Lack of concepts of "Aggregator" and "Renewable Energy Community**". Currently, electricity produced by self-producers is exchanged only with the Universal Service Provider

MAIN FINDINGS

- GREEN AGENDA AND ENERGY EFFICIENCY AS A PRIORITY

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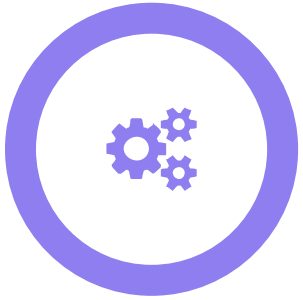
TECHNICAL ASPECTS



- **Guaranteeing energy supply quality parameters** according to standards and **avoiding frequent supply interruptions** and **network voltage fluctuations** above the allowed technical norms **remain** a challenge;
- **The current obligation for the mandatory location** of the electricity-generating unit in the same environment as the electricity-consuming unit limits investments in photovoltaics;
- Despite the legal specification regarding the reduction in quantity and peak time of electricity consumption, **ERE has approved tariffs only to discourage the consumption of electricity at peak times**, but can it be considered an **incentive for the consumption of electricity at night/bands with low consumption?**

MAIN FINDINGS

- GREEN AGENDA AND ENERGY EFFICIENCY AS A PRIORITY

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COMPETITIVENESS ASPECTS

Treatment with differentiated electricity prices/units for the same category of businesses.

ECONOMIC-FINANCIAL ASPECTS

The support of projects in the electricity sector through the state budget **is currently limited only to the household consumer segment.**

MAIN FINDINGS

- ACCESS TO FINANCING FOR INVESTMENTS IN ENERGY INSTRUMENTS

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PRIVATE SECTOR AWARENESS ON EXISTING FINANCING OPPORTUNITIES AND RELEVANT ACTORS INVOLVED

- **There is a lack of information** about alternative investment opportunities in renewable energy, the cost and return time of the investment, **highlighting the need for more information campaigns;**
- **Banks are perceived as the most popular investment channel** used by the private sector to finance their investments in energy efficiency and/or alternative sources of energy production;
- **There is limited awareness of the main actors,** including institutions, businesses, banks, etc., regarding administrative and financial mechanisms that encourage or facilitate investments in the field of renewable energy production.

RECOMMENDATIONS

– AT MACRO AND POLICY LEVEL

MFE/MIE to assess the current instruments at disposal of SMEs, especially for those operating in crucial sectors, with the objective of transparency to advice and information, financial support, support of energy audits and the implementation of auditors' recommendations on energy efficiency.

The development of a centralized instrument (e.g., platform, agency, website, application etc.) as an information centre that includes and transmits the best practices managed by the Ministry of Infrastructure and Energy.

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. **Business associations should be active during the consultation processes.**

RECOMMENDATIONS

– LEGAL AND REGULATORY LEVEL

IMPROVEMENT OF PRIMARY LEGISLATION

- Scheme of net electricity metering on an annual basis
- Increasing the capacity installed by self-producers to 1 MW
- Adopting the concepts of "Aggregator" and "Renewable Energy Community“
- The possibility of installing the production unit, in a place other than the one of consumption
- Creation of the RES coordinating instrument/institution

ORGANIZATION OF SECONDARY LEGISLATION

- Approval of the simplified authorization procedure for the connection to the distribution system of small renewable projects for wind electricity
- Adoption of the Methodology of determining the price of the sale of surpluses to the Universal Service Provider
- Facilitation of administrative procedures for the construction of new production capacities that are not the subject of a concession (up to 50 MW upon approval by MIE/ over 50 MW upon approval by CM)

IMPLEMENTATION AT THE REGULATORY LEVEL

- Creation of the market/approval of procedures for the trading of "green certificates" and "guarantees of origin“
- Adopting and making transparent the "Indicators for the standard criteria of supply service quality and security performance of the distribution network“
- Determination of compensation in cases of non-compliance with the above standards
- Determining special incentive tariffs for electricity consumed at night/low consumption periods

RECOMMENDATIONS

- ENCOURAGING THE PRIVATE SECTOR TOWARDS INVESTMENT IN ALTERNATIVE ENERGY SOURCES

Business Chamber of Commerce and Industry/Business Association, in cooperation with universities and specialized knowledge centres, must proactively engage in projects, initiatives, events, and training sessions that enable increased awareness of the business community (focus SMEs) to expand their knowledge and upgrade their management capacities on energy.

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

DISCUSSIONS

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Energy Supply Security

A sustainable energy network is indispensable and directly affects the smooth running of business activity. In the frame of the current energy crises and dependence of Albania on an unstable hydrological regime due to intense climate changes, what can be done to address the raised security energy supply uncertainties?

Raising Awareness / Mentoring

Local SME knowledge creation/management capacities on energy diversification and ongoing supporting (local and international) instruments could mitigate initial investment costs related to renewable energy investments, particularly SMEs in priority sectors, such as tourism and the processing industry. Who could promote and facilitate the process?

Potential

Albania could be a “green battery” for the Balkan region due to its immense potential for renewable resources, but the local private sector remains concerned about the efficiency of these “new energy sources” and is still hesitant to invest in this direction. Any clear energy market plans?

Green Agenda and green models (ESG), the need for business remodeling

Business sustainability based on the tripartite model ENVIRONMENT - SOCIAL - ECONOMY

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THANK YOU!

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