

## RESEARCH ARTICLE

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# Assessing Legal Environment Factors that Impact in the Decision to Invest in Electricity generation from Renewable Resources – Case of Albania

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## Abstract

Identifying and assessing the factors impacting investments in electricity generation is important for both private and public decision-makers. Understanding the decision-making process helps to stimulate and increase investments in the energy sector. This paper examines the legal environment factors that affect the decision to invest in electricity generation. Seventeen sub-factors of this environment are identified and its relative importance in the decision-making is measured, by interviewing 68 investors having invested or having obtained the right to invest in the electricity generation. We perform the Principal Component Analysis (PCA) in 17 sub-factors to find more general latent structures (factors) that characterize the legal environment affecting investments. The latent factors discovered are: *Legal and Favourable Framework for the Concessions, Protecting Foreign Investments, Government Conditions and Bureaucracy* as well as the *Cascade Investments and Information*. These are the most important factors of the legal environment in the decision-making process to invest in electricity generation.

**Keywords:** Renewable Resources, Decision-Making Process, Legal Factors, Investment, Electricity, Albania

## 1. Introduction

Providing the necessary energy supply is a key factor in a country development. Electricity generation sector is potentially one of the most competitive sectors in Albania.

Since 1998 (except year 2010) Albania is a net importer of electricity [1]. The government has tried to reduce electricity import by increasing the investments in local electricity generation capacities. In the National Strategy of Energy the Government declares that 'taking into account the uncertainties of energy import, additional generation capacities are necessary to reduce dependence from import and hydrological conditions [2]. According to the strategy, construction of thermal capacity and interconnection lines will be a priority without neglecting the utilization of renewable energies. 'The renewable energy resources (solar, wind, biomass and especially small Hydropower Plants (HPP) should be stimulated

for a maximal use of domestic resources' [2]. Energy Sector Strategy 2006-2020 also confirmed that one of the six strategic priorities is "Promoting the use of renewable energy sources (solar, small HPP, wind and biomass), to enable the maximum utilization of local resources' [3].

Electricity supply sector, including generation, is also a sector in restructuring. It is transformed from vertically integrated structures (the state-owned company Albanian Power Corporation (KESH) has performed all the activities that made possible the electricity supply) towards a structure where the supply segment are separated and some of them, the ones which are competitive are opened to attract private capital. Although the economic activity for building the electricity generation plants is the state exclusivity, it may grant permission (concession) even

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to a private company against some obligations to fulfil.

In a competitive market the signal for appropriate investments in the production of goods or the respective services is given by their sale price. High prices motivate more investments and vice versa. In the absence of the signals coming from the market (because the wholesale market is undeveloped yet), Albania uses three other instruments to attract investments: the *concessions*, *financial incentives* and *improving the investment's climate*, instruments that are correlated with each other. In this context, in 2006 the new law for concessions was approved whose main objective was to attract private capital investments in this sector. As a result, many concessionary contracts were signed aiming to attract private investments from either local or foreign sources; the law also aimed at improving the business and investments climate. Although, the law made possible to attract private capital in electric power generation, private investment is still modest compared with the country needs for generating

capacities or compared with public company capacities.

The decision to invest is a complex process and is influenced by many factors. We will examine only the legal environmental factors that influence the decision to invest.

Businesses are organizations (entities) established by law that perform their activity in accordance with a large number of laws operating in national and international level. The legal framework heavily impacts business activities and performance. The legal environment is closely connected even with the court activity. Laws usually govern, among other things, the status of the organization, its relationship with its customers and suppliers and certain internal procedures and activities [4].

Based on literature review and recognition of concrete conditions of Albania [5], 17 legal environment factors are deemed more important in the decision-making and the electricity generation business activity. These factors are listed below:

**Table 1:** Dimension of (sub)factors in the business legal environment.

No.	FACTORS
1	Long-term power purchase contract
2	Concession Law and other (legal) acts
3	Albanian Power Corporation (KESH) / Wholesale Public Supplier (WPS) obligation to purchase the production of some types of resources
4	Implementation of concession law and other (legal) acts
5	Conditions set by the government to make the investment
6	Bureaucratic procedures
7	Information to potential investors for the legislation in the power sector
8	Number of institutions that are involved in the privatization, concession and licensing process
9	Allowing the investors to keep more than one site for plant construction
10	Rent level for using the natural resources (royalty)
11	The fair and lawful expropriation
12	Fair disputes settlements
13	The difficulty in the negotiations of Power Purchasing Agreement (PPA) with KESH (WPS)
14	Law for protecting the foreign investments – what does it offer
15	The fairness of legal processes
16	Allowing the repatriation of profit
17	The legal seizure and confiscation

Assuming that the government efforts to attract private capital in this sector should continue, it is essential to understand the decision-making process of companies that will potentially invest in electricity generation from renewable resources. In this context *the objective of this paper is to identify and assess the*

*legal environmental factors that influence private companies' decision to invest in electricity generation from renewable resources.*

Data to achieve the above objective were gathered through a survey with the private sector companies (investors) that have privatized one or more electricity

generation units (plants) or have obtained the right (concession) to construct such a unit; 113 contracts were signed until the end of 2011. The data were analysed with the factor analysis method.

The remaining part of the paper is structured as follows: methods and procedures (data and factor analysis), are followed by empirical results, discussions, results and conclusions and recommendations.

## 2. METHODS AND PROCEDURES

### *The data*

**Table 2:** Likert scale attributes for measuring the factor’s impact scale on the decision to invest

1	No impact
2	Little impact
3	Moderate impact
4	High impact
5	Crucial impact

The investors were asked to assign 1 to the least important factor – the investors shall make the investment even if it was missing or it was of bad quality. On the other hand, they were asked to assign 5 to the most important – the investors shall not make the investment if it was missing or it was of bad quality.

From all potential investors, the questionnaire was administered to natural or legal persons who own or have a concession project for construction and exploitation of electric energy generation unit. These persons in their decision making are confronted with the question "in what area to invest"; and have decided to invest or risk their capitals exactly on electricity generation sector. The foreign investors are confronted even with another investing decision: in what country to invest and they have selected our country.

Initially concessionary and private projects were identified. Data regarding privatization contracts of electric power generating plants that were in the state ownership priviously and concession contracts to build new units were taken at the ministry that covers the economic aspects. The interviewed persons were selected to be the owners of the companies and their administrators that have won the concessionary right until the end of 2011. The interviewed persons were selected at random from the pool of the above mentioned persons. The interviews were conducted in the second half of 2012 and first quarter of 2013.

A survey was conducted to collect the primary data. The identified factors that potentially affect private investor’s decision to invest in an electricity generation project were listed in a questionnaire designed to be administered to the investors in order to receive their perceptions on the relative importance of the factors.

The key question of the questionnaire was ‘How much the [listed] factor has affected your decision-making process to invest’. The investors were asked to express in a (ordinal) Likert scale their perception on the impact each factor had on their decision to invest. The Likert scale attributes are as follows:

There were contacted 86 companies out of 113 identified contracts or 76% of them. Overall the valid responses were 68 with a response rate of 80% (or about 60% of all companies that have won concessions contracts projects by the end of 2011). Such a sample size leads to a margin of error of 7.7%; margin of error has been calculated according to the formula recommended by Yamane [6].

### *Factor analysis*

The data were analysed using the factor analysis method. Factor analysis is a *multivariate* technique for identifying whether the correlations between a set of observed variables stem from their relationship with one or more *latent variables* in the data, each of which takes the form of a *linear model* [7]. In other words factor analysis is a method for investigating whether a number of variables of interest  $Y_1, Y_2, \dots, Y_l$ , are linearly related to a smaller number of unobservable factors  $F_1, F_2, \dots, F_k$  [8].

The analysis shall be exploratory and of R type. We use the method of Principal Component Analysis (PCA). “As long as PCA and FA are used descriptively as convenient ways to summarize the relationships in a large set of observed variables, assumptions regarding the distributions of variables are not applicable. If variables are normally distributed, the solution is enhanced. To the extent that normality fails, the solution is degraded but may

still be worthwhile” [9]. Given the above, we may not make specific tests to identify the normality and linearity. The examination of correlations matrix between the variables is significant and sufficient.

From the sophisticated statistic tests that assess all correlations together (or the quality of the correlation matrix R) we use two main tests, Bartlett’s test of sphericity (if the test is significant the correlations between the variables are in general different from zero, so the variables may form groups or factors) and the Kaiser–Meyer–Olkin measure of sampling adequacy (KMO) for each variable and the sample in general. If the KMO value results larger than the general accepted threshold 0.5, the sample is suitable. The compatibility scales shall be assessed according to those given by Kaiser [10].

### 3. EMPIRICAL RESULTS

We have considered that sub-factors describe specific components of legal environment which is a broad concept and cannot be measured by a single indicator.

#### *Factor analyses assumptions*

According to Hair et al. [11] for factor analysis, there shall be more observations than variables. Absolute minimal sample size shall be 50 observations. There shall be the efforts to maximize the number of observations for the variable, in a desirable ratio of 5 observations for variable. At a minimum, there must be more cases than factors [12]. The sample size meets the two criteria selected to be suitable for the type of analysis we are performing and is very close to fulfil the third criteria. Sample size of 68 observations meets the criteria that there are more observations than variables and it has the minimal absolute size of more than 50 observations. After the removal of three complex variables, the observations ratio for the variable is 4.85:01 so very closer to the desired ration 5:1.

The quality of the correlations among all variables is good because about 26.5 % of the correlations (our analysis) are important at the level of 0.01. There are also sufficient correlations with a value larger than 0.3, necessary to perform the factor analysis ([9], [7], [11], etc.).

Partial correlations between the variables are low. The highest partial correlation found in the matrix of 0.688 is closer but below limit of 0.7 which is the partial correlation to be considered high [11]. This shows that the variables do not explain each-

other but they explain the factors that might be included, so there is no multicollinearity between the variables.

Bartlett’s test for the equality of variable variances becomes important in the level 0.0001, supporting that the correlations between the variables are (in general) very different from zero. KMO index for all the sample is 0.658 which may be interpreted that the sample is average [10] regarding the compatibility for the type of analysis that we are carrying out. KMO index for each variable (the table is not submitted here) shows that the Measure of Sampling Adequacy (MSA) for all variable exceeds the acceptability threshold (0.5), 5 variables even exceed the (average) 0.7 level.

#### *Factor extraction*

We use three criteria, namely percentage of variance to be extracted, slope diagram and Eigenvalue, for extracting “the most reasonable” number of the factors.

According to the percentage of variance to be extracted criterion (the table is not submitted here) we can retain 4 to 5 components (factors). Slope test (slope diagram has the inflection point at the 4th factor) suggests retaining the 4 first factors while the Eigen values criterion (Eigen value greater than 1) suggests retaining of 5 factors. Finally the three criteria suggest retaining of 4 factors. They have the Eigenvalue  $> 1$  and explain 62.73 % of the total variance.

The validity test for the number of factors confirms the closeness with the selected number of the factors. Reproduced correlations matrix reports that there are 71 (52 %) non-redundant residuals with absolute values greater than 0.05, that are below the higher accepted threshold of 50 % to consider the appropriate number of extracted factors [7].

The initial matrix with four extracted components does not offer a clear solution so we make the re-specification of the factor model through the orthogonal rotation VARIMAX (since we want uncorrelated factors because we may use them in other analysis as independent variables). The factor rotation partially clarifies the factor solution. All variables have a loading greater than 0.5. Although all variables are captured by the components (factors), three variables are complex ones. The variable on “Fair disputes settlements” and the “Law for protecting the foreign investments – what does it offer” weights in two components. Even the variable

“The difficulty in the negotiations of PPA with KESH (WPS)” is closer to overloading but it is also the variable with the smallest communality. So these complex variables are removed from the analysis and we carry out again the factor analysis and the orthogonal rotation VARIMAX.

We use the same method or technique (PCA) for extracting the factor and the same criteria for extracting the ‘most reasonable’ number of the factors. According to the criteria of the percentage of variance to be extracted (Table 3) we can keep 4 to 5 components (factors)

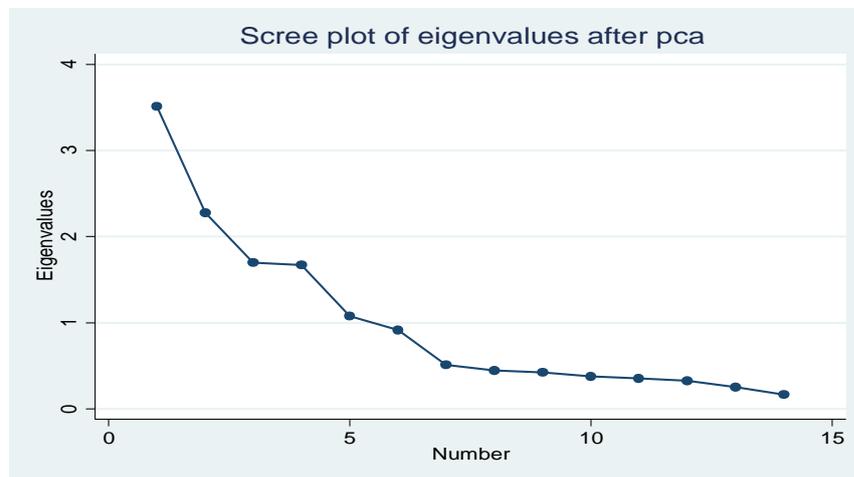


Figure 1: Slope diagram

The slope test (slope diagram has the inflection point at the 5th factor) suggests to retain 4 factors. While the Eigen values criterion suggest to retain 5 factors with Eigen value greater than 1. Finally: By combining the three criteria, retaining 4 factors seems

more reasonable. They have the Eigen value > 1 and explain 65.39 % of the total variance.

The initial matrix with four components does not offer a clear solution so we make the re-specification of the factor model through the orthogonal rotation VARIMAX.

Table 3: Total variance explained after orthogonal rotation VARIMAX

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.511	25.080	25.080	3.511	25.080	25.080	2.421	17.295	17.295
2	2.276	16.260	41.341	2.276	16.260	41.341	2.383	17.021	34.316
3	1.698	12.129	53.469	1.698	12.129	53.469	2.359	16.852	51.168
4	1.669	11.920	65.390	1.669	11.920	65.390	1.991	14.221	65.390
5	1.076	7.685	73.075						
...									
14	.163	1.168	100.000						

Extraction Method: Principal Component Analysis.

The overview of the total variance explained after orthogonal rotation VARIMAX shows that there are big differences in the variance percentage that explains each factor before and after the rotation, differences that has made the factors more comparable regarding the variance that each of them explains.

We will use the matrix of rotated components (Table 4) for labelling and analysing the 4 extracted factors.

‘Significant loadings’ shall be considered the loadings with a value greater than 0.5, although in the component matrix we shall not print the loadings smaller than 0.4 – they shall not be considered to see the relative weights and their distance in case of cross-loadings.

**Table 4.** Rotated component matrix (VARIMAX)

no.	Variables	Component				Communalities
		1	2	3	4	
1	Long-term power purchase contract	.743				0.581
2	Implementation of concession law and other (legal) acts	.735				0.575
3	KESH / Wholesale Public Supplier (WPS) obligation to purchase the production of some types of resources	.715				0.611
4	Concession Law and other (legal) acts	.693				0.648
5	The legal expropriation and confiscation		.878			0.781
6	The fair and lawful expropriation		.812			0.693
7	Allowing the repatriation of profit		.759			0.624
8	Rent level for using the natural resources (royalty)			.716		0.634
9	Conditions set by the government to make the investment			.686		0.635
10	Number of institutions that are involved in the privatization, concession and licensing process	.406	.640			0.606
11	Bureaucratic procedures			.634		0.513
12	Fair disputes settlements			.628		0.638
13	Allowing the investors to keep more than one site for plant construction				.875	0.810
14	Information to potential investors for the legislation in the power sector				.869	0.806

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

Communality values show that all variables have communality greater than 0.5 meaning that any original variable shares with all other variables included in the analysis more than half of the variance; according to Hair et al. [11], 0.5 is the threshold that the variables should be kept in the analysis. Rotation of the factors has fully clarified the factor solution. All variables are captured by the components (factors) because their loading is greater than 0.5, and have this loading only in one component.

In the *first* component 4 (sub)factors are included. Electricity purchase from the state with long-term contract and the obligation of Wholesale Public Supplier (WPS) for the purchase of the production from some types of resources underline the legal favours made to electricity producers in Albania to attract them invest in this area. Further, what the concession law and other legal acts offer and their implementation represent the legal framework in terms of concessions, or the quality of concessionary legislation and its implementation. All these make us to label it the *Legal and Favourable Framework for the Concessions*.

All sub-factors that explain the second component (factor) have to do with investments security, particularly foreign investment security. The foreign investors are more interested in the security of

their investments in a foreign country. Guarantees for expropriation and seizure or legal confiscation as well as allowing the repatriation of their profits is a precondition for investments. So we shall label this component *Protecting Foreign Investments*.

Five (sub)factors are included in the *third* component - this is the component where more variables than in any other component are grouped. The first four variables of this component take into account the governmental created environment in the country where investments are made. Setting the rents for using natural resources and setting conditions for performing the investments represent investments conditions created by government which are developed and implemented in a wider governmental environment with (unpleasant) bureaucratic procedures and a number of institutions dealing with the process. The last variable, "The fairness of legal processes", deals with the judicial system or the state in a wider meaning. But it has a similar nature with the bureaucratic procedures and the number (implied many) of the institutions that deal with the process. Considering that (sub) factors represent government created business conditions and related government institutions, we will label this component the *Government Conditions and Bureaucracy*.

In the *fourth* component only 2 (sub)factors are included - this is the scale where minimum possible

number of factors is grouped. But their loading components are high. The first variable, "Allowing the investors to keep more than one site for plant construction" represents the (number of) investments in the cascade for the plants that use hydro energy. In a water flow, or cascade, several plants may be constructed and to allow or not allow the same investor to make this is important for performing these 'type' of investments. Albanian law for concessions does not put limits regarding the investments in the cascade. The second variable, "Information to potential investors for the legislation in the power sector" represents the prior information provided to

the investors regarding legislation that regulates the investments in this specific sector. Based on preceding discussion, we label this component the *Cascade Investments and Information*.

When using Likert-type scales, it is important to calculate and report Cronbach's alpha coefficient for internal consistency reliability for any scales or subscales one may be using [13]. According to George and Mallery [14] a rule of thumb that applies to most situations and shows the reliability of the scale depending on Cronbach's alpha result is given in the table below :

**Table 5.** Reliability of the scale based on Cronbach's Alpha

	> 0,9	> 0,8	> 0,7	> 0,6	> 0,5	< 0,5
<i>Reliability</i>	excellent	good	acceptable	questionable	poor	unacceptable

Reliability analysis data are showed in the following table:

**Table 6.** Reliability analysis data

	Number of items in the group (scale)	Cronbach's Alpha
All variables included as dimensions of prior group 'Legal Environment'	14	0.753
Groups after the Factor Analysis		
Legal and Favourable Framework for the Concessions	4	0.740
Protecting Foreign Investments	3	0.776
Government Conditions and Bureaucracy	5	0.707
Cascade Investments and Information	2	0.802

Cronbach's alpha coefficient for all the sample is 0.753, so the reliability of all scale with 14 items is 'acceptable'. Alpha for the three first factors is also 'acceptable', while for the variable *Cascade Investments and Information* it is 'good'.

#### 4. DISCUSSION

The analysis identified 17 dimensions or (sub)factors of the *legal environment* that affect the decision to invest in electricity generation. Then, over one sample of 68 responses from the investors that have privatized or have obtained the right (concession) to invest in electricity generation a factor analysis was conducted. Analysis revealed 4 latent structures or factors representing 14 variables, while three variables resulted complex and were not captured by the factors. Four factors extracted from the analysis were labelled *Legal and Favourable Framework for the Concessions*, *Protecting Foreign Investments*, *Government Conditions and Bureaucracy*, *Cascade Investments and Information*.

These factors were the four most important areas of the legal environment considered by the investors in Albania which influenced the decision to invest in electricity generation. They summarize the data for all 14 (sub)factors that may be used in other analysis, mainly in regression analysis. The terms 'factor' and 'component' after conducting the factor analysis are equivalent because of labelling the two most known methods for conducting this analysis, while before conducting the factor analysis all variables may be called even (sub)factors to differentiate them from the factors received after the analysis.

The first factor the *Legal and Favourable Framework for the Concessions*, is more important for investors. It explains 17.3% of the general variance of the data, from 65.4% that are explained by all factors together. The variable that weights the most in this factor is "Long-term power purchase contract" with a loading of 0.743, and the second most important variable is "Implementation of concession law and other legal acts" with a loading of 0.735. The variable

“KESH / WPS obligation to purchase the production of some types of resources” - the third most important one - underlines the importance in the investment decision-making of the effective favourable framework offered by the state for the concessionary projects. It is likely that the evaluation for factor 1 and factor 3 is due to market development level where there is a small chance that the production will be sold in the market (in case of bigger plants usually connected in high voltage) or there is no chance at all (in case of smaller plants usually connected in medium or low voltage). In Albania the ‘price signals provide limited incentives ... to invest in renewable energy sources projects’ [15]. Also, we could think that the alternative of secure sale is more ‘comfortable’ because with less risk for the investors. It should be emphasized that in reality all the interviewers stated they have signed long-term sale contracts with the Wholesale Public Supplier. Alternatives of domestic production are KESH Gen or Independent Power Producers, and in this last case, it is highly probable that investors require long term PPAs, probably with prices higher than those resulting from developing by KESH Gen [16]. Besides the obligation of connecting Renewable Energy Sources (RES) generators, most support systems also require suppliers or grid operators to purchase RES generated electricity [17].

Lowest ‘grade’ given by investors to “Concession Law and other legal acts” variable may be interpreted in two alternative ways: (i) investors have already passed the concessionary procedures, and (ii) they may not be interested to enter the procedures for new projects. While the second and fourth variable (the last one) emphasize the importance of the content and implementation of concessionary law in Albania. One of the 7 most important reforms that made major improvements in the investment's climate of Albania is introducing new procurement and concessions laws [18].

*Security for Foreign Investments* is the second most important factor by investors’ perspective. It explains 17% of the data total variance. This factor explains a high percentage of the variance for the three (sub)factors. For the (sub)factors “The legal seizure and confiscation” and “The fair and lawful expropriation” it explains respectively 77 % and 66% of their variance. “Seizure and Confiscation” and “Expropriation” are essentially deferent though they seem similar. What is common to them, is that they

are measures against the property rights. Seizure and confiscation are described in many laws of Albanian legislation starting from the law on tax procedures and including the low known as anti-mafia law. In their economic common use the seizure and confiscation ‘represent the set into full control and without compensation of the property elements of a natural or legal person with court decision ... [19]. The seizure is defined as a temporary measure against the property rights, while the confiscation as a definitive measure. The expropriation is made by a special law, only for the public interest and according to the defined procedures and to a fair compensation.

The experience with different countries has shown that there may be abuses both in case of “Seizure and Confiscation” and “Expropriation”. OSCE [20] concludes that "if countries are to reach their full economic potential, they need to have modern and efficient commercial legal systems to protect businesses’ interests in land and personal property and to provide guarantees against arbitrary or uncompensated expropriation.

The interviewed investors have set a logical hierarchy for the most important factors under security of their investments by evaluating more the legal seizure and confiscation than the legal expropriation. The confiscation and expropriation are evaluated more than the repartition of the profit. The seizure, confiscation and expropriation phenomenon may happen even to domestic investors but the foreign ones are more sensitive to these phenomena due to the past experience in different countries and not knowing well the business environment in the country. The level of judiciary independence is also important because it guarantees protection against seizure and expropriation abuses. This variable ranking - the second most important - confirms the finding of the World Bank that ‘despite several attempts at reform, immovable property rights in Albania are not adequately secure and represent an important governance challenge [21].

The third most important factor by investors’ perspective is the *Government Conditions and Bureaucracy*. It explains 16.85% of the data general variance, with only a small difference compared to the first and the second component. The variable that weights more in this factor is the “Rent level for using the natural resources (royalty)”. This variable with a loading of 0.686 (and the second one, the “Conditions set by the government to make the investment”)

shows that the investors are sensitive to the conditions that the government sets when it gives the permission (concession) to construct a generating plant. The special condition of the rent level for using the natural resources (royalty) is considered as more when compared with the government conditions in general.

The three other (sub)factors of this component have comparable loadings in the range 0.63 – 0.64 indicating almost of the same importance. The surprise was only the low priority given to “Fair disputes settlements” variable, one variable normally considered as quite important. According to Business Albania [22] the highest intensity obstacles in the current activity (almost coinciding with the time of our interviews) of private companies are poor efficiency of state administration and judiciary (system). The three last variables of this component are related with efficiency of the state and judicial administration. This result may reflect the fact that in the decision-making to invest, it is likely that the investors do not anticipate what will happen in a near future if they will confront with conflicts and legal processes. It may also reflect the fact that cooperation with other factors (in our case "Rent level for using the natural resources (royalty)", "Conditions set by the government to make the investment", etc.) reduces the importance in the judicial system and the public administration in the investing decision. Finally, given that the majority of interviewed companies are domestic ones and medium or small ones, they do not have much choice for the country but to invest in Albania.

The last ranked factor is the *Investments in the Cascade and Information*. It represents only two (sub)factors (variables) and explains 14.2 % of the data total variance. As it can be seen neither the investments in the cascade nor the information on legislation in the field of electricity have been a problem for the investors.

## 5. CONCLUSIONS

Factor analysis shows that the legal environment determinants affecting investments in electricity generation from renewable resources in Albania in a decreasing order are the *Legal and Favourable Framework for the Concessions*, *Protecting Foreign Investments*, *Government Conditions and Bureaucracy* as well as the *Cascade Investments and Information*.

The *Legal and Favourable Framework for the Concessions* is the most important factor resulting from Factor Analysis. This finding supports the Government philosophy to use concessions instrument for attracting the private investments in electricity generation accompanied with financial incentives. The legal framework represented by the concession law and the related government decisions for concessions as well as the favourable framework composed of the government decisions for the electricity purchase by the state company using a long-term contract are viewed by the investors as closely connected with each other and as important determinants of a favourable framework. This conclusion suggests that such a successful policy shall continue. We recommend that Albania should follow the normal European practice of using a single agency for purchase all energy from Privileged Producers [17].

However the results show that the electricity sale alternatives are very limited; electricity generating companies can sell only to Wholesale Public Supplier. Therefore it is suggested that other alternatives shall be added by establishing and developing electricity wholesale markets. If this is realized, the producers could choose between the sale at the single agency or the sale in a free market to maximise the benefits from their investments.

The results show that *Protecting Foreign Investments* continue to be on the top list of the most influent factors in the decision making to invest. The investors consider the legal seizure and confiscation as the most important variable in terms of investments protection followed by the fair and lawful expropriation. This logical and expected ranking comes from the fact that the seizure and confiscation phenomenon is an extremely limited measure against the property rights because in such cases it is not given any compensation. While in the case of expropriation for public interest there is compensation though the risk may exist that this compensation might not be fair.

Given the fact that seizure, confiscation and expropriation are regulated from many laws, the risk of unfair interpretation is real. The research findings show that the vigilance of governmental agencies and other legal state bodies (the courts) for the correct implementation of limiting measures on property rights are critical for a conducive environment for businesses and attracting the investments in the electricity generation sector. 'While the current legal

framework is broadly sound, there is a pressing need to address several specific gaps, inconsistencies, and bottlenecks. One of them is to accelerate the payment of compensation to expropriated owners (restitution claimants) to ensure credibility of the law, but also revisit the legal commitment to pay compensation to expropriated owners (restitution claimants) at current market rates' [21].

*Government Conditions and Bureaucracy*, is the third most important factor in terms of the legal environment for investments. The government conditions and especially the 'Rent level for using the natural resources (royalty)' prevail to bureaucratic and judicial procedures. The results show that the *Government Conditions and Bureaucracy* are not a decisive factor on the investment's decision. This assessment may be also read that the conditions set by the government for the concessionaires have been acceptable but should be taken care of for not aggravating them and creating serious obstacles. The results also suggest that there is progress in the effectiveness of state bureaucracy.

*Investments in the Cascade and the Information* is the least important factor on the decision to invest in electricity generation. Legal permission (not obstruction) of the investors to keep more than one construction site for the plant seems to have been a minor factor in this decision. The government bodies and/or private consultants seems to have provided good information to the investors for the specific legislation that regulates the investments in electricity generation.

The variables "Fair disputes settlements", "Law for protecting the foreign investments – what does it offer" and "The difficulty in the negotiations of PPA with KESH / WPS" have not been fully examined in this study because they resulted to be complex variables that weighed in more than one component. Therefore there is a need for more evidence to test their importance in investment decision.

Research has two limitations that should be considered by users especially when considering aspects of generalization of the results and its implications. Determinants of investment's decision-making are based on the interviewee statements rather than hard facts - the respondents were asked to make ratings. In this context it must be remembered that such a method carries the risk of subjective answers. On the other side, sample size selection is small, that

might results in a high margin of error, although the population itself (the studied companies) is also small.

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