

# **ASSESSING MACRO-ECONOMIC ENVIRONMENT FACTORS THAT IMPACT IN THE DECISION TO INVEST IN ELECTRICITY GENERATION FROM RENEWABLE RESOURCES: A CASE OF ALBANIA**

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## **Abstract**

*Identifying and assessing the factors that have an impact on increasing investments for electricity production is important for the decision-makers. Understanding the decision-making process helps to stimulate and increase the investments in the energy sector. This article examines the macroeconomic policy factors that affect the decision to invest in electricity production. There are identified 12 macroeconomic policy sub-factors (fiscal and monetary ones) and it is measured the relative importance of each sub-factor in the decision-making, by measuring the perception of 68 investors that have invested or have gained the right to invest in the electricity production. We perform the principal component analysis (PCA) in 12 sub-factors to find more general structures (latent factors) that characterize the macroeconomic factors. The sub-factors are grouped in three components or factors that are labelled Fiscal Incentive Package, Monetary and Financial Policy and Corporative Fiscal Instruments. These are the most important factors in the decision to invest in electricity production.*

**Keywords:** *Renewable Resources, Macro Economics, Environment Factors, Electricity, Albania*

## 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 (ERE, 2013). 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 (MIE & NAE, 2003: Updated on April 2005). 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' (ibid). 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' (AKBN, 2007).

Electricity supply sector, including generation, is also a transition sector. It is transitioning from vertically integrated structures (the state-owned company Albanian Power Corporation (KESH) has performed all the activities that made possible the electricity supply) toward a structure where the segments that make possible the supply are separated and some of them, the ones which are competitive are open to attract private capital. Although the economic activity for constructing the electricity generation plants is the state exclusivity, it may grant permission (concession) even to a private company against some obligations to fulfill.

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 inform that there are needed 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*, *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, in total this 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 factors influencing in the macro-economic policies affecting the decision process. This is because the quality of these factors is a prerequisite for investment in general and electricity generation in particular.

It is widely accepted the state role as economy regulator, though regulation philosophy and the regulatory level or deepness are specific for every country. This intervention significantly affects business activity and its decision-making process. In broad terms, this state intervention usually takes three main forms, described as fiscal policy, monetary policy and direct controls(Worthington & Britton, 2006).

Fiscal policy is the taxation and expenditure policy of a government (Rutherford, 1995). Elements of the fiscal policy are the tax types, levels of tax rate and their structures, facilitations and tax exemptions, etc. These elements are at the same time decision factors in the business. Monetary policy is a governmental policy, for the most part implemented by a central bank, which influences aggregate demand by a variety of methods, including the changing of interest rates, open market operations and the setting of targets for the money supply (ibid). And the methods used in the context of monetary policy directly or indirectly affect the activity of the business.

Studying the literature and knowing the conditions of Albania, 12 macroeconomic policy factors (fiscal and monetary ones) that were considered as the most influencing in the decision-making process of electricity generation business activity were studied. They are represented Table 1 (as follows):

Table 1: The Dimensions or Sub-Factors of Macroeconomic Business Environment

No	Factors
1	Temporary tax exemptions
2	Tax exemptions
3	Tax reductions
4	Corporate profit tax
5	Labor tax (social security)
6	Flat tax
7	Exchange rates
8	Interest rates in the banking sector
9	Interest rates in the capital markets
10	Government demand for money through treasury bonds
11	Inflation
12	Governmental initiative 'Albania 1 Euro'

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 access the macro-economic policy factors in the 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 taken the right (concession) to construct such a unit; 112 contracts were signed until the end of 2011. The data were analyzed 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.

## RESEARCH METHOD

### The Study and Data

A descriptive research design was adopted. For this, the primary data were gathered conducting a face to face survey. The identified macroeconomics 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.

### Questionnaire and Data collection

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:

Table 2: Likert Scale Attributes for Measuring Macroeconomic Factor's Impact 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 before were in the state ownership and concession contracts to construct 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. 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, 1973). According to Hair et al. (2010) 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 (Garson, 2007).

The sample size meets the three criteria required to be suitable for the type of analysis we are performing. The sample size of 68 observations meets the criterion that there should be more observations than variables; it has the minimal absolute size of more than 50 observations, and at least five times more observations than the number of the variables to be analyzed. We analyzed 12 variables and have more than 60 observations or a ratio of observations to variable of 5:1.

### Factor Analysis

The data were analyzed 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* (Field, 2009). 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  $F_1, F_2, \dots, F_k$  (Tryfos, 1998).

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" (Tabachnick & Fidell, 2007). Given the above, we may not make specific tests to identify the normality and linearity. But we will consider a simple determinant of multicollinearity, that is that the determinant of the  $R$ -matrix should be greater than 0.00001' (Field, 2009). 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 (1974).

## ANALYSIS AND EMPIRICAL RESULTS

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

The quality of the correlations among all variables is good because about 38 % 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 (Tabachnick & Fidell, 2007; Field, 2009; Hair et al., 2010; etc.). Matrix  $R$  determinant is 0.002 not signaling significant presence of multicollinearity.

Partial correlations between the variables are low. The highest partial correlation found in the matrix of 0.582 (our analysis) is the below limit of 0.7 which is the partial correlation to be considered high (Hair, Black, Babin, & Anderson, 2010). 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

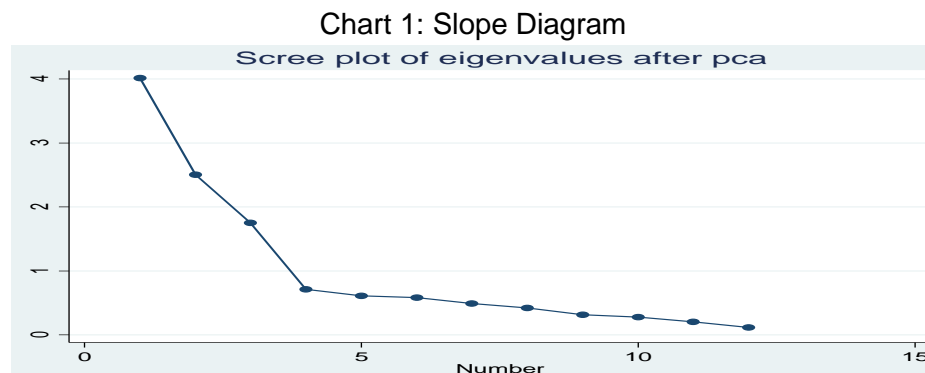
from zero. KMO index for all the sample is 0.746 which may be interpreted that the sample is average (Kaiser, 1974) regarding the compatibility for the type of analysis that we are carrying out. KMO index for each variable shows that the Measure of Sampling Adequacy (MSA) for all variables exceeds the acceptability threshold (0.5), 9 variables even exceed the (average) 0.7 level.

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

Table 3: The Variance Extracted or Explained from each Variable (Proportion Column) and Cumulative Variance (Cumulative Column)

Components	Eigen values	Differences	Proportion	Cumulative
Comp1	4.01511	1.51177	0.3346	0.3346
Comp2	2.50334	0.75342	0.2086	0.5432
Comp3	1.74992	1.03642	0.1458	0.689
Comp4	0.7135	0.101734	0.0595	0.7485
...	...	...	...	...
Comp12	0.116055	.	0.0097	1

According to the criteria of the percentage of variance to be extracted we can keep 3 to 4 components (factors).



Slope test (slope diagram has the inflection point at the 4th factor) suggests keeping of 3 first factors while the Eigen values, criteria suggests the keeping of 3 factors with Eigen value greater than 1. Finally the three criteria suggest the keeping of 3 factors. They have the Eigen value > 1 and explain 68.9 % of the total variance.

The validity test for the number of factors confirms exactly the selected number of the factors. Reproduced correlations matrix reports that there are 31 (46%) 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 (Field, 2009).

The initial matrix with 3 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).

Table 4: Total Variance Explained after Orthogonal Rotation VARIMAX

Component	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.015	33.459	33.459	3.246	27.050	27.050
2	2.503	20.861	54.320	2.888	24.063	51.112
3	1.750	14.583	68.903	2.135	17.791	68.903

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 each factor explains before and after the rotation, differences that has made the factors more comparable regarding the variance that explains each of them.

We will use the matrix of rotated components for labeling and analysis of 3 extracted factors. 'Significant loadings' shall be considered the loadings with a value higher than 0.5; in the component matrix loadings smaller than 0.4 shall not be considered to see the relative weights and their distance in case of cross-loadings.

Table 5: Rotated Component Matrix (VARIMAX)

Variables	Component			Communalities
	1	2	3	Extraction
Tax exemptions	.913			.875
Temporary tax exemptions	.859			.754
Tax reductions	.849			.774
Governmental initiative 'Albania 1 Euro'	.747			.628
Flat tax	.604		.581	.707
Interest rates in the capital markets		.798		.644
Governmental demand for money through treasury bonds		.766		.600
Inflation		.737		.584
Interest rates in the banking sector		.733		.538
Exchange rates		.660	.434	.627
Corporate profit tax			.874	.791
Labor tax (social security)			.854	.744

Extraction Method: Principal Component Analysis.

Rotation Method: Varimaxwith Kaiser Normalization.

a. Rotation converged in 5 iterations.



Communality values show that all variables have communality higher 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. 2010 0.5 is the threshold that the variables should be kept in the analysis. Six out of twelve variables have communality higher than 0.7. It becomes clear that all variables have sufficient communality and a good quality to be included in the analysis.

Rotation of the factors has clarified the factor solution. All variables are captured by the components (factors) because their loading is greater than 0.5. Only one variable, the “Flat tax” is captured by two components.

In the first component 4 sub-factors are included. All these sub-factors that explain the first factor have to do with instruments related to the exemptions or fiscal incentives used by the state to attract investments. Taking into consideration the loading of each sub-factor at this component we name this factor *The Fiscal Incentive Package*. This group shows the importance that the investors give to tax exclusions and reductions, permanent or temporary ones, as well as to the governmental initiative ‘Albania 1 Euro’. This factor is the most important one among the three extracted factors because it explains 27% of the total variance of the data.

On the second component 5 sub-factors are included – it represents the component where more variables than in any other component are grouped. All these sub-factors that explain the second factor have to do with the monetary policy and the wider financial policy of the state. Taking into consideration the loading of each sub-factor at this component, we name this factor *Monetary and Financial Policy* as a more general concept, including the monetary policy but also financial policy. This group shows that the investors are sensitive to both capital and loan interest rates as well as the inflation exchange rates. This is the second most important factor from the three extracted factors because it explains 24% of the total variance of the data.

On the third component only 2 sub-factors are included, being the component where the minimum possible numbers of the sub-factors are grouped. But their loading at the component are very high. These two sub-factors that explain the third component (factor) have to do with the taxes paid by business companies. Taking into consideration the loading of each sub-factor at this component, we name this factor *Corporate Fiscal Instruments*. This group shows that investors are sensitive to tax rates either profit or the labor tax rates. This is the less important factor from the three extracted factors because it explains only 17.8 % of the total variance for the data, or about 9.3 % less than the first factor.

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 (Gliem & Gliem, 2003). According to George and Mallery (2003) 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 6: Reliability of the Scale based on Cronbach's Alpha

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

Table 7: Reliability Analysis Data

	Number of items in the scale	Cronbach's Alpha
All variables included as dimensions of the preliminary group 'Macroeconomic environment'	12	0.811
Grouping after Factor Analysis		
1. <i>Fiscal Incentive Package</i>	4	0.869
2. <i>Monetary and Financial Policy</i>	5	0.809
3. <i>Corporative Fiscal Instruments</i>	2	0.791

Cronbach's alpha coefficient for the entire sample is 0.811, so the reliability of all scale with 12 items is 'good'. Alpha for the first and second factor is respectively 0.869 and 0.809, so the reliability of these scales is also 'good'. Alpha for the third factor is 0.791, so the reliability of the scale with two items is 'accepted'.

## DISCUSSING THE RESULTS

The analysis identifies 12 dimensions or sub-factors of the environment or macroeconomic conditions that affect on the decision to invest in electricity generation. Then, using a sample of 68 responses from the investors that have privatized or have taken the right (concession) to invest in electricity generation, the factor analysis conducted revealed 3 latent structures or factors representing 12 variables. The three extracted factors from the analysis were named Fiscal Incentive Package, Monetary and Financial Policy and Corporative Fiscal Instruments. The analysis revealed that these are the three most important areas of the macroeconomic environment valued by investors in Albania and that had influenced their decision to invest in electricity generation. These factors also summarize the data of 12 sub-factors. These results may be used on other analysis mainly in regression analysis.

The first factor Fiscal Incentive Package is the most important factor from the investors' perspective. It explains more than one fourth of the general data variance out of more than two thirds (69%) of variance explained by the three factors together. The variable that weights more in this factor is "Tax exemptions" with the load 0.913, a higher load compared with the threshold point of 0.5. The second important variable is "Temporary tax exemptions". According to these

results the two variables could be considered as one as the investors have apparently considered both permanent and temporary tax exemptions as almost equally important, with a slight preference for permanent exemptions. “Tax reduction” variable has taken a very high assessment, very close with the assessment for “Temporary tax exemption” variable. This result may be interpreted that investors consider important tax exemptions to tax reductions in their decision making and that the differences between them is not important. The least important variable of this factor is the “Governmental initiative ‘Albania 1 Euro’”. But anyhow it is a high load variable (0.747) and captured by one factor. This is an endemic variable of the Albanian business climate.

Monetary and Financial Policy is the second most important factor from the investors’ perspective with only a small difference from the first one. Variable loads at this factor are of order 0.7, while for *Fiscal Incentive Package* these loads were of 0.8 order. The variable that loads more in this factor is the “Interest rates in the capital markets” but with a load nearly equal with the subsequent variable “Government demand for money through treasury bonds”, respectively 0.789 and 0.787. As it can be seen, investors consider more important finding business partners who bring their capital into the business, rather than access to capital from financial resources. Regarding access to loans as financial resource, it seems that government competition in is more important than the “Interest rates in the banking sector”. On first sight, this result comes as a surprise. But if we take a look at the debt quantity incurred by the government until 2013 ([financa.gov.al](http://financa.gov.al)) and loans extended to business (see for example Suljoti, Note, & Manjani, 2016), we will understand that the investors concern regarding government competition for funds is not un-justified, since the trend of domestic debt taken by the government is increasing while loan trend for the business is decreasing.

Ranking of the “Interest rates in the banking sector” variable only in the fourth place (in fact nearly identical with the third place) may reflect the bank preference to extend loans to these investment projects compared to other more risky activities. The interest rates remain however important for the investors’ decision-making. For example in one sample of 4112 companies, out of which 85 were Albanians, Beck et al. (2005) showed that the macro economic issues such as high interest rates and lack of money in the banking system are among the main factors which significantly reduce firm growth rates. According to them, high interest rates, among the specific financial obstacles to growth, represent a constraint for all firms in all countries.

“Inflation” variable has a loading equal with the “Interest rates in the banking sector” variable. If we take a look at the inflation indexes ([instat.gov.al](http://instat.gov.al)) we will see that its level in the last 10 years has been moderate (the highest level is on 2009 with 3.5%). As it is seen,

apparently inflation is important in the investing decision-making combined with other factors. The “Exchange rates” variable is the variable with the lowest loading but over the 0.65 limit to be considered as important in interpretation, a limit that is necessary where the sample size is 60-70 observations (Hair, Black, Babin, & Anderson, 2010). As it can be seen, foreign currency transactions are important in the plant construction stage and not in their operation stage. All the interviewed persons reported that they sold the electricity (or they will sell it) to the only public purchaser with regulated contracts in the domestic currency. Also only a few investors are foreign ones that require repatriation of profit, and consequently would have interest for the exchange rates.

The World Bank (WB) (World Bank, 2004) has proved that the lack of stability (taking as examples the high inflation and the real unstable exchange rates) deters investment by making future rewards more uncertain. According to WB, large firms are more likely to have means at their disposal to cope with these risks, while medium and small firms are likely to be hardest hit. A special factor is formed by *Corporate Fiscal Instruments* that are taxes paid by the investors. This factor explains 62.5% of the “Corporate profit tax” variance and 55% of the “Labor tax (social security)” variance. It comes out that main complaint of the investors in this area is the corporate profit tax. At the time of study the level of tax was 10% while today it is 15% that shows that the government policy to increase this kind of tax makes worse the business and investment climate. Hallward-Driemeier and Stewart (2004) showed that the tax rates, as barriers perceived by companies to develop their business have different importance in different regions but they still remain in the top-list of business limitations. For all the regions, the tax rate is ranked the second most important while for the Eastern Europe & Central Asia region the tax rate is ranked in the third place most important as barrier (after policy uncertainty and macro instability). It is evidenced that the levels of the taxes remain important for business decision-making and investments. For example, in 2013, when investigating the importance of certain external factors in the decision to invest among Polish companies (also a developing country), Bialowolski and Weziak-Bialowolska, showed that in a solution with three factors, one of the driving forces that determine investment decisions for Polish companies is the tax policy.

The “Flat tax” variable was expected to be caught by any other factor but in fact this did not happen. It has an important loading, the same as *Fiscal Incentive Package* even in the *Corporate Tax Instruments*, with a slight inclination to the first one. In fact, flat tax represents a financial policy or as taxation system, but it also assumes the same and low tax level, as it is the case in our country. But the assumption as low is not explicit. Exactly this duality is reflected in the results where this variable cross-loads two factors despite the use of some rotation methods in the factor analysis. As it can be seen, the investors have understood the “Flat tax” more as

low tax level than the same level of the taxes. This result neither confirms nor rejects the conclusion of the World Bank that among the seven most important reforms that made a major improvements in Albanian investment climate in recent years are introducing a flat tax (10 percent) on businesses and individuals and improving tax administration(World Bank, 2010).

## **CONCLUSIONS AND RECOMMENDATIONS**

The factor analysis shows that the Fiscal Incentive Package, Monetary and Financial Policy and Corporative Fiscal Instruments are the most influencing macroeconomic determinants of investments decisions in electricity generation in Albania.

Many studies support our conclusions but the importance hierarchy varies according to the countries and economic conditions. The results support the relevance and usefulness of government policy to grant fiscal incentives to investments in constructing new capacities for electricity generation. This support mainly provided for in the law “On creating enabling conditions to construct new capacities for electricity generation” has helped to attract private capital in electricity generation. Evidence supports that that exemption from custom duties of machineries and equipment intended to investment in electricity generation can be considered useful and successful. It is recommended that this support to be continued.

The results also show that the investors make a weak differentiation between the tax exemptions and tax reduction with a slight preference to the exemptions. Within the exemption group the investors make a weak differentiation between temporary and permanent exemptions with a slight preference to the permanent exemptions. The priority set by them is logic while the implication for the policies is the level of these differentiations. It comes out that the investors need fiscal support while the form of this support remains yet to be discussed. The governmental initiative ‘Albania 1 Euro’ had limited success but not a negligible one.

The analysis shows that finding their own financial resources is the most important factor in combination with other monetary and financial policies, in the absence of the functional capital markets. Regarding access to loans as financial resource, it seems that governmental competition for the funds is more important than “Interest rates in the banking sector”. These might come from the relatively low risk for banks to finance projects in electricity generation because the state guarantees electricity generation purchase from renewable resources. The development and competition of the banking system that create access in financing is also a positive factor that enables the project financing with affordable interest rates. The organization of the capital markets, the further development of the banking system and electricity generation purchase by the state (as the last alternative for the investor) perhaps shall continue to be the priority for governmental policies.

The inflation and exchange rates as it can be seen for many years are not a problem for the Albanian economy and therefore have small importance in the investing decision-making. The taxes level - both paid by companies or collected by companies as government agents - (“Corporate profit tax” and “Labor tax (social security)” continue to be an important factor in attracting investments. Corporate profit tax has a priority to labor tax (social security). Increasing the corporate profit tax level perhaps is not an appropriate development in the tax system. The “Flat rate” variable is not fully tested in this study because it weights on two factors. So we need more evidence to test the importance of this variable in the investment decision.

The current study has two limitations as well. The determinants for the investment decision-making are based on the stated approach– the interviewed persons are required to make their own assessments. In this context this approach contains the risk of subjective attitudes and should be seen with caution. On the other hand, the sample size is small, which results in a rather large margin of error. However we should mention that ‘the population’ of the studied companies is also small.

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