

EVOLUTION OF GREEN FINANCE IN ALBANIA

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ABSTRACT

Aim: Green finance is a concept that is only partially known in Albania. However, Albania is committed to supporting green agreements for a planet that respects the environment and sustainability. For this reason, this paper aims to analyze the level of knowledge and awareness of Albanian people regarding green finance, the financial products that are part of green finance, the activities developed to promote green finance, as well as the expected results regarding the commitment towards a sustainable green world. **Methods:** In order to study the latest developments, a questionnaire was built, which was distributed at institutions that are related to sustainability activities or are responsible for sustainability reporting and also where the financial institutions that produce financial products that promote green finance operate. **Results:** The results of the study show an increasing trend of activities in support of sustainable development, but still relatively little recognition of the problems related to the emission of greenhouse gasses and climate change. Reporting about sustainability activities is in the process of being included in financial reporting standards. **Conclusions:** In conclusion, green finance in Albania is in its first steps and needs general awareness and involvement of all actors to make possible a quick transition to a sustainable economy and living. Reporting about sustainability activities is still voluntary and not mandatory; standards about sustainability reporting are still in progress and, when finalized, will help to boost all individuals and enterprises toward performing and reporting sustainability activities.

Key words: Green finance, Sustainable Development Goals, financial product, climate change, Green Deal

JEL codes: F65, Q01, Q51

INTRODUCTION

Green finance is still a relatively new concept in Albania. Albania is strongly engaged in all European initiatives to support the Sustainable Development Goals (SDGs) and climate change mitigation, as well as to preserve and protect the environment as part of green agreements. The issue of setting up green finance starts with an initial assessment of climate change and its negative effects on the planet. Green finance consists of the creation of financial products that activate public and private investments in

support of maintaining sustainability, protecting the environment, and mitigating climate change [Höhne et al. 2011]. There is no standard definition regarding green finance, and we often find terms such as climate finance, environmental finance, and sustainable finance, which are similar and overlap, but are not the same thing. Basically, green finance is part of sustainable finance [Mohd and Kaushal 2018]. Green finance focuses on environmental issues that aim to preserve the environment by activating investments and the flow of capital towards sectors that produce products and services that protect the environment

and help preserve it. For example, investments in the production of renewable energy, the reduction of environmental pollution, the preservation of forests and waters of the seas, rivers, lakes, and oceans, as well as the development of electric transport that reduces the level of environmental pollution, etc. [Krastev and Krasteva-Hristova 2024]. The concept of green finance is explained by first understanding the concept of sustainable finance and the concept of sustainability itself. The concept of sustainability is related to meeting the needs of today's world while respecting and preserving the demands and needs of tomorrow's world [Baudry et al. 2017]. The concept of sustainability is closely related to the concept of the continuation of the existence of human beings and all other beings that are part of this planet; it relates to the continuation of life and the survival of the world that we know [Arcagök 2023]. The concept of sustainable finance refers to the activation of the movement of capital towards sectors that develop environmental protection activities, social activities, and governance activities [Schäfer 2012]. All mechanisms created or activated by sustainable finance aim to support the 17 SDGs and environmental, governance, and social strategies [Schumacher et al. 2019]. Green finance is realized through financial instruments specifically created to activate the financing of projects for the benefit of environmental protection, mitigating the effects of climate change, and the transition towards the elimination of greenhouse gas emissions [Knez et al. 2022]. The most popular financial products created in the framework of green finance are green bonds, environmental bonds, and sustainable bonds, which are all debt instruments that aim to finance the public and private sector that implements projects, programs, and activities that promote environmental protection, mitigating the effects of climate change, as well as moving towards an economy that maximally reduces emissions of carbon dioxide and greenhouse gasses [Cerqueti 2023]. The development of green finance requires the public and private sectors to work together to implement projects aimed at supporting the SDGs. To achieve this, the government, international institutions, private companies, public agencies, universities, second-level banks, the central bank, and any other crediting financial

institution must be included [Martin 2022]. Green finance is intended to assess and reduce climate risks, mitigate the negative effects of climate change, and gradually move towards the production of renewable energy that is sustainable, long-term, and that protects the environment and life on the planet [Brühl 2021]. Global warming, or global combustion, as it is called in recent years, is now a problem for our entire planet. It is a problem that must be addressed by all countries of the world, especially those that cause the biggest part of the problem. Unfortunately, the countries with the smallest emissions suffer the most [Soundarrajan and Vivek 2016]. The primary countries responsible for high carbon dioxide emissions are China, Russia, Canada, the USA, Japan, Iran, India, Germany, South Korea, Indonesia, Brazil, South Africa, Turkey, and the United Kingdom, mainly due to industrial activities [Singh 2017]. Understandably, it is these same countries that should be on the front line of the attack to compensate, setting up mechanisms to reduce the damage created by global warming as well as to promote the reduction of the cause of this global damage [Koval et al. 2022]. The main countries that have produced financial products in the framework of green finance, otherwise known as green bonds, are China, Germany, the USA, the United Kingdom, Italy, France, Spain, Holland, and Hong Kong [Statista 2024]. In the last decade, the USA has led in the generation of funds through green bonds totaling USD 454 billion. It is impossible for Albania to be the main actor in the development of green finance, but it can become part of all the initiatives of the Western Balkans for the creation of green bonds, to absorb green investments, and through the development of well-coordinated fiscal policies to reduce the emission of carbon dioxide and greenhouse gasses [Dashi 2023]. Currently, there is a green finance platform where all the specifics of a green financial system are explained, which is based on two main components: first, the prioritization of all green investments with a focus on the environment and mitigating climate change, and the second is the support of all investments that increase sustainability and prioritize all SDGs (CPI 2021). Since the industrial acceleration of the 1980s, the world is constantly experiencing negative effects regarding sustainability. Rapid industrial development was accompanied by

the deterioration of sustainability [Sachs 2014]. In the following years, many phenomena have been related to this development, and in relation to COVID-19, the connection with the deterioration of sustainability has been widely discussed [Ranjbari 2021]. The effects of COVID-19 make the actions of all the countries of the world much more important in increasing sustainability and responding in support of the 17 SDGs [Barbier and Burgess 2020]. After the COVID-19 pandemic, the perception regarding sustainability has completely changed, identifying determinants of sustainability through a new perspective, that of a post-COVID-19 world [Abbas et al. 2021]. In their recent studies, Gjoni and Muça [2023] studied the financial reporting problems of rural households and also took into consideration their reporting on green finance issues. There is always a need for environmental support in regard to preserving nature and its equilibrium [Šarić et al. 2023].

AIM AND METHODS

In Albania, there are very few studies about green finance and the perception of green investments in relation to sustainability and the SDGs. For this reason, it is necessary to analyze the level of knowledge of the concept of green finance, the instruments available to countries like Albania, how much these funds have been used by financial intermediaries, the government and market actors, and how much these funds have been translated into investments in projects, programs, and activities that support sustainability by focusing on mitigating the negative effects of climate change as well as the transition towards a green economy with a significant reduction in the emission of carbon dioxide and greenhouse gases.

The study's methodology is based on quantitative and qualitative data analysis and interpretation. For this purpose, a questionnaire was built and distributed to about 500 individuals who work in companies that are related to sectors that must support sustainability, such as energy, transport, tourism, agriculture, etc. From this sample, only 220 questionnaires were valid and were analyzed and processed statistically. Questions were focused on recent research on this topic and selected to reach the main objective of the study,

which is to evaluate the level of evolution of green finance in the perception of Albanian stakeholders. About 20 interviews were also conducted with representatives of agencies that report on sustainability in Albania, such as agencies of the Ministry of Agriculture and Rural Development, the Ministry of Tourism and Environment, and agencies under the municipalities, etc. A descriptive method of analysis was used to analyze the results and draw some important conclusions. The research questions we raised to carry out this study were:

- Q1: What is the awareness level of the concept of green finance in Albania and the scope of its coverage?
- Q2: Do Albanian institutions periodically report on sustainability and investments in the framework of green finance?
- Q3: Does the Albanian financial market offer financial products that support green investments, protect the environment, and increase sustainability?
- Q4: Have the Albanian institutions applied for the absorption of funds for projects in the framework of green finance?
- Q5: What is Albania's contribution regarding activities that increase sustainability and support the SDGs?

RESULTS

Regarding the first question, the respondents answered that they partially know the concept of green finance, and that there are only a few initiatives to convey information about green financing and the sectors that can benefit. Most of them fail to differentiate between the terms sustainable finance, green finance, climate finance, and environmental finance; they think they are the same term formulated in different ways (Fig. 1).

Regarding the question of whether the institutions where they work, or are related to, report on activities that support sustainability, they answered that there are short reports on financing related to green energy sources, such as renewable energy produced through solar panels, hydropower plants, and mini-hydropower plants, as well as urban transport services utilizing electric cars, and increasing the use of recyclable packaging, etc. (Fig. 2).

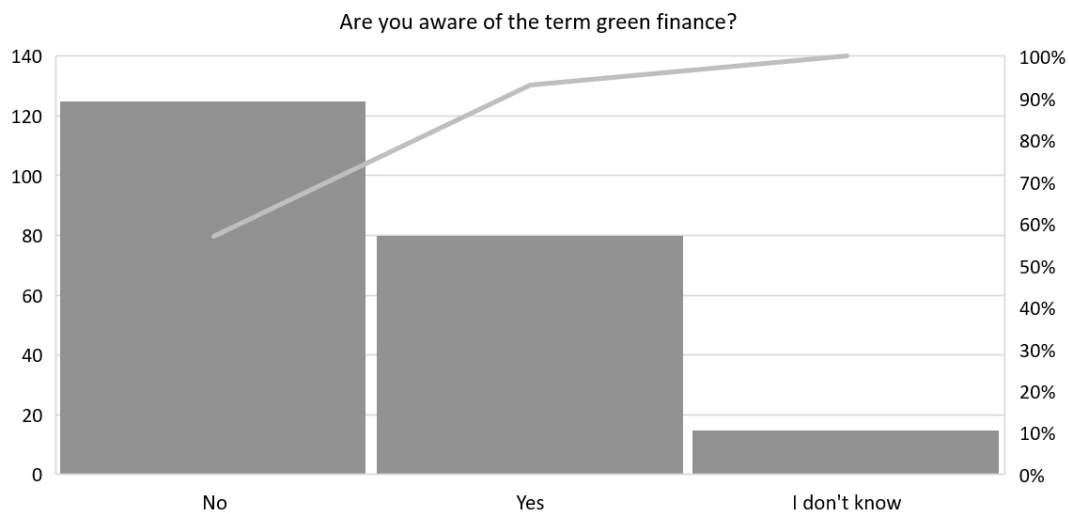


Fig. 1. The awareness level of the green finance concept

Source: the authors.

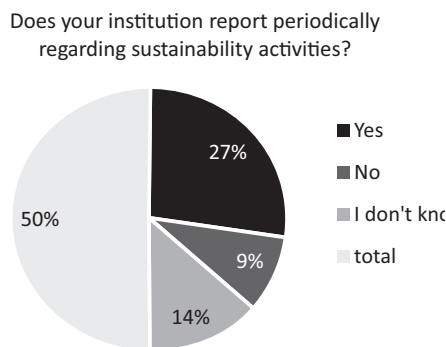


Fig. 2. Reporting of sustainability activities

Source: the authors.

Assess the level of environmental activities in the organization where you work

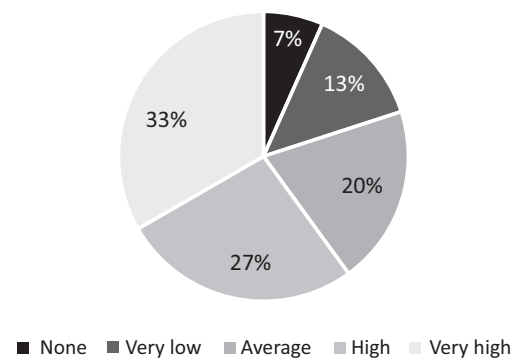


Fig. 3. The level of environmental activities

Source: the authors.

The level of environmental activities in Albania, according to the respondents (Fig. 3), is mainly represented by a general initiative of municipalities to plant 1,000,000 green trees throughout the country, initiatives to clean the banks of rivers and lakes, and the establishment of a national moratorium for the protection of Albanian forests by law since 2016 [LIGJ 5/2016].

Regarding the question of whether the Albanian financial market offers specialized financial products for green investments, the respondents answered that there are such products in the form of green loans offered for transport utilizing electric cars as well as the installation of solar panels widely in hotel businesses

and in the production sector.

Regarding the fourth question regarding applications for European Union funds for financing green projects, the respondents answered that they accessed funds through cross-border projects, projects within the framework of consortia between private organizations, universities, and foreign partners, as well as agencies of ministries and municipalities in the country. However, the level of applications for these funds and the level of their profit from the Albanian partners still remains low (Fig. 4).

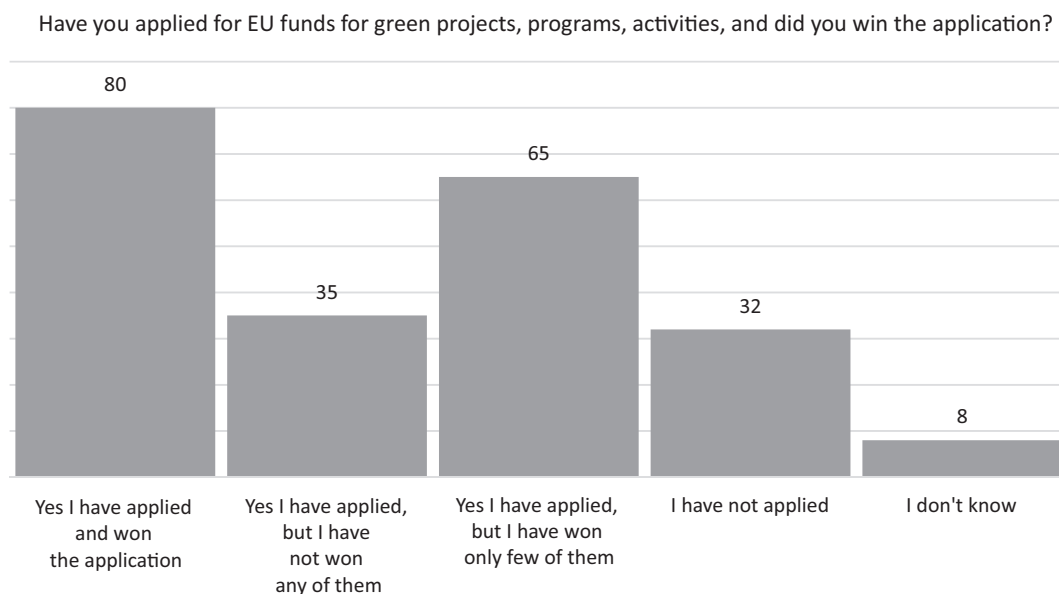


Fig. 4. Level of application for green investments

Source: the authors.

Regarding the fifth question, the respondents answered through an open question whether Albania has embraced all the initiatives of the transition towards a renewable energy industry through the hydropower plants built throughout its territory, as well as through the wind energy that will be produced through three new projects that have just started. There has also been great support for transportation using electric buses and electric taxis. This will significantly help reduce the country's carbon dioxide emissions. However, Albania remains a country with a high level of transport based on diesel and gasoline vehicles, which needs to be reduced through government policies encouraging renewable energy.

Through interviews with actors who have access to reports related to activities that support sustainability, it turns out that the reports have very little information, within the amount of one or two paragraphs, and without explaining the ongoing impact in relation to the benefits derived from the activities related with stability. The interviewees in 93% of them emphasize that the role of the government, municipalities, and local administration units should be much higher to sensitize communities regarding sustainability and the opportunities created through green finance.

CONCLUSIONS

As a conclusion from the study conducted with 500 respondents regarding the concept and effectiveness of green finance in Albania, as well as 20 interviews with actors participating in agencies that report on sustainability, it turns out that an accurate portion of Albanians still do not have an accurate understanding of green finance, sustainability, sustainable finance, and issues related to climate change. For this, more awareness is needed on the part of the government, international institutions, financial intermediaries, non-governmental organizations, and other actors who have full knowledge about the concept of sustainability and the SDGs in order to expand as much as possible the scale of participants in activities, projects, programs, and investments that improve sustainability. Also, the study showed that there are specialized financial products to support green investments, but that there is still a relatively low recognition of them, with unfavorable conditions for profit and difficulty in obtaining financing. Also, the study showed that there is still a lack of a reporting culture in Albania regarding the financing of green investments and engagement in activities that support sustainability and their periodic report-

ing. We recommend that this type of reporting for all companies that engage in projects with an impact on the environment should become part of the mandatory and standard annual financial reporting of these companies. **The study showed that, to a large extent, local and local government institutions do not regularly report on activities that support sustainability, and this is due to a lack of ongoing funds and a lack of culture regarding the importance of sustainability and mitigating the effects of climate change. In conclusion, there is a need for more studies in this field, with the aim of encouraging the commitment of the entire population regarding sustainability, access to green finance, and reporting on sustainability.**

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EWOLUCJA ZIELONYCH FINANSÓW W ALBANI

STRESZCZENIE

Cel: Zielone finanse to koncepcja wciąż częściowo znana w Albanii. Jednak Albania zobowiązała się do wspierania zielonego porozumienia na rzecz planety, która szanuje środowisko i zrównoważony rozwój. Z tego powodu artykuł ma na celu przeanalizowanie poziomu wiedzy i świadomości Albańczyków na temat zielonych finansów, produktów finansowych, które są częścią zielonych finansów, działań opracowanych w celu promowania zielonych finansów, a także oczekiwanych rezultatów dotyczących zaangażowania na rzecz zrównoważonego zielonego świata. **Metody:** Aby zbadać najnowsze osiągnięcia, opracowano kwestionariusz, który został rozesłany do instytucji związanych z działaniami na rzecz zrównoważonego rozwoju lub odpowiedzialnych za raportowanie zrównoważonego rozwoju, a także tam, gdzie działają instytucje finansowe, które wytwarzają produkty finansowe promujące zielone finanse. **Wyniki:** Wyniki badania pokazują rosnący trend działań na rzecz zrównoważonego rozwoju, ale nadal stosunkowo niewielką rozpoznawalność problemów związanych z emisją gazów cieplarnianych i zmianą klimatu. Sprawozdawczość na temat działań na rzecz zrównoważonego rozwoju jest w trakcie uwzględnienia w standardach sprawozdawczości finansowej. **Wnioski:** Podsumowując, zielone finanse w Albanii są na początku swojej drogi i potrzebują ogólnej świadomości i zaangażowania wszystkich podmiotów, aby umożliwić szybką transformację w kierunku zrównoważonej gospodarki i życia. Sprawozdawczość dotycząca działań na rzecz zrównoważonego rozwoju jest nadal dobrowolna i nieobowiązkowa, standardy dotyczące sprawozdawczości w zakresie zrównoważonego rozwoju są nadal w toku i po ich sfinalizowaniu pomogą zachęcić wszystkie osoby i przedsiębiorstwa do wykonywania i raportowania działań na rzecz zrównoważonego rozwoju.

Słowa kluczowe: zielone finanse, cele zrównoważonego rozwoju, produkt finansowy, zmiana klimatu, Zielony Ład

