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European Bank
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Corporate Governance in Transition Economies

Albania Country Report

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The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

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If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

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This Report – along with all other country reports prepared within this initiative – is available at: http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development ("EBRD") has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the "Assessment").

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish "reference points" enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored “moderately strong” or “strong”, then the resulting average was increased by 0.5. However, this “positive” adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Ratings:

“Strong to very strong” (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

“Moderately strong” (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

“Fair” (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

“Weak” (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

“Very weak” (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the “quantitative” assessment obtained according to the methodology described above, a “qualitative” assessment was also undertaken, by classifying our findings for each section as “strengths” and “weaknesses”. Because understanding corporate governance requires a “holistic perspective”, when the “quantitative” assessment was finalised, the assessment team compared it with the “qualitative” assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ±0.5.

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework

The corporate governance framework in Albania is essentially comprised by the Law on Entrepreneurs and Commercial Companies, the Law on Statutory Auditing and Organization of Registered Chartered Auditors and Approved Accountants, and the Law on Banks. A Corporate Governance Code was adopted in 2011. It provides a set of recommendations and is purely voluntary.

Structure and Functioning of the Board

Joint stock companies can be organised under a one-tier or two-tier system, however in the two-tier system, the appointment and dismissal of executives can be assigned to the general shareholders meeting, which makes it more like a "*hybrid*" system. This does not seem the right approach, as it might reduce the leverage of the board over executives. Boards appear to be small. Evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support. However, this does not seem to be the case in Albania. It was not possible to assess if boards have a diversified mix of skills as no company discloses the board members' qualifications. Legal entities cannot serve as board members.

All joint stock companies are required to have a majority of independent directors on the board and in the board committees. This seems excessive and does not seem to be well implemented in practice: only two among the ten largest companies disclose having one – and only one - independent board member. There are three different definitions of independence, which does not help for clarity. Gender diversity is limited, below South East Europe average. Public Interest Entities are required by law to establish audit committees to oversee financial reporting and audit on behalf of shareholders. Only banks seem to have established them. However, this is not a "board committee", as it can be composed of outsiders (i.e., non-board members). It was not possible to assess the activities of board and committees as this information is not disclosed.

The law does not expressly provide for a clear right of the boards of companies to approve the strategy, budget and to oversee risk appetite. There is no practice of board evaluation and no company discloses having a corporate secretary in place. Liability of board members and managing directors, fiduciary duties and conflicts of interest are detailed in the law.

Transparency and Disclosure

The law requires and the corporate governance code recommends companies to disclose a fair amount of non-financial information online, however in practice the amount and quality of available information is very limited. There are no listed companies in Albania, hence the expectation for quality non-financial information disclosure is limited. However – as a minimum – we would have expected that at least the law requirements were implemented.

The law requires large companies and banks to prepare and disclose their financial statements in line with IFRS, however it appears that only the three banks among the ten largest companies comply with this requirement. The law requires companies and banks to have an independent external auditor and to disclose its name, but it is not clear who is in charge for the "independence test". Disclosure on this matter is limited. As a note, it appears that in some instances the auditor signs the audit reports only with the name of the firm (not with his/her own name), which is contrary to the practices promoted by the Association of Chartered Certified Accountants (however this practice should now change as in 2016 the law was amended in order to require the auditor performing the audit also to sign the report).

Internal Control

The internal control system is not well developed. Internal audit is required only for banks. Three different laws require companies, banks and public interest companies to create audit committees, but only the three banks among the ten largest companies disclose having an audit committee in place. In all cases, they do not appear to be "board" committees as they are mostly made by outsiders – i.e., non-board members.

None of the ten largest companies disclose the audit committees' meetings and activities. Banks do not seem to be required to create a separate compliance function.

Companies are required to appoint external auditors and the audit committee should undertake the auditor's "*independence test*", however – due to the limited number of companies establishing an audit committee - it is not clear who in practice undertakes this "*independence test*". External auditors appear to be allowed to provide non-auditing services. This needs to be carefully assessed, as the provision of non-auditing services can undermine the auditor's independent. Disclosure on this matter is very limited. Banks are required to rotate the external auditor (partner) every 7 years, however, because auditors' report are very often signed with the name of the firm and not with the name of the auditor performing the audit, it is not possible in practice to understand if there is a rotation of the audit partner.

Related party transactions and conflict of interest are regulated by law, however we have doubts that the approval process is undertaken with the necessary independence. At the moment it appears that there is no comprehensive whistleblowing legislation.

Rights of Shareholders

Basic shareholders rights are provided by law and major corporate changes require supermajority at the general shareholders meeting. Shareholders representing 5% of the capital can call a shareholders meeting but there is no clear shareholders' right to ask question at the meeting. Cumulative voting is not regulated but the law allows shareholders representing 5% of the shares to appoint a member of the board, if so provided by the Articles. Insider trading is regulated by law, however there is no evidence that the law is well enforced in practice. The law includes a few provisions to impede *self-dealing* however it is not clear if the practice is effective. Disclosure on conflict of interest and related party transactions is limited.

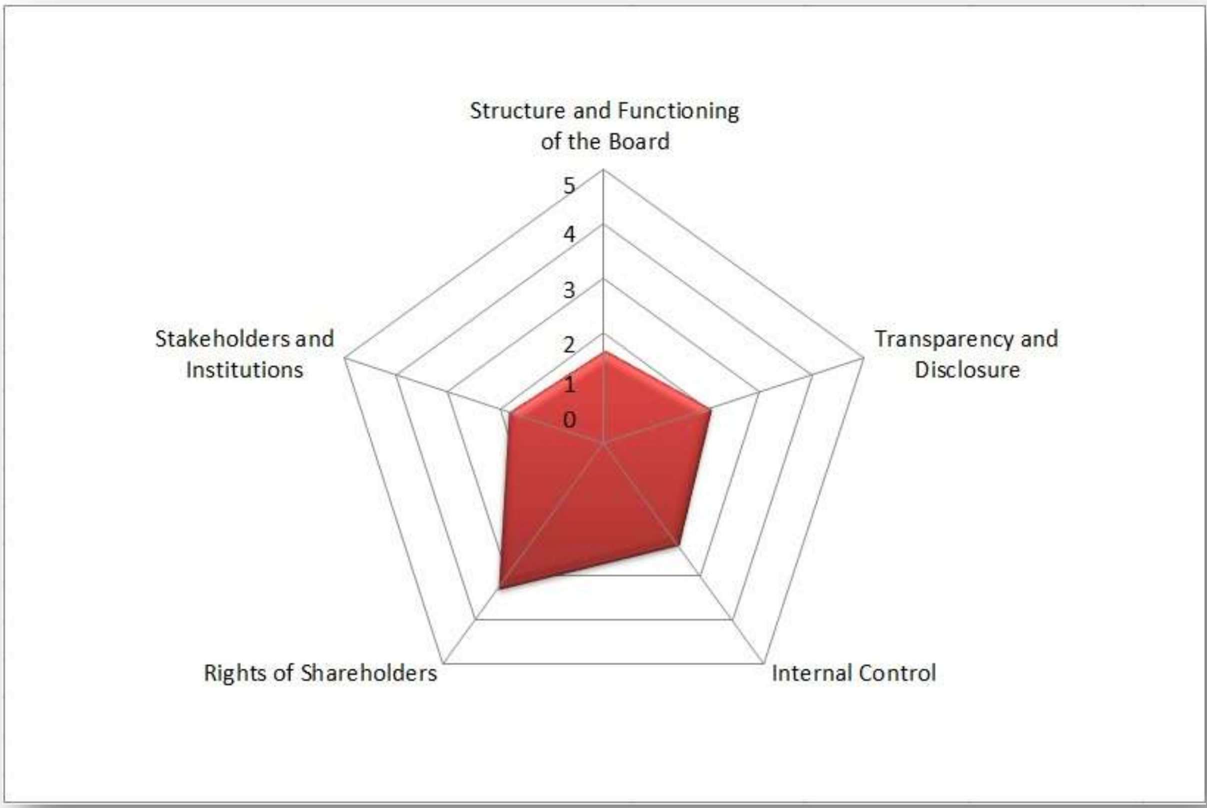
Shareholders have the right to access corporate documentation. Pre-emptive rights are provided by law for limited liability companies only. It is not clear if this applies also to joint stock companies. Shares provide equal rights to shareholders and registration of shareholding is required by law. Significant shareholding variations must be disclosed to the National Registration Centre.

Stakeholders and Institutions

The stock exchange in Albania is inactive. Rulings of regulatory agencies are documented and publicly available but not easily accessible. International audit firms have a significant presence in the country; however the presence of international law firms is limited. International rating agencies are not active in the country.

A voluntary corporate governance code exists in Albania but it is generally not implemented. One bank has included a compliance statement in its annual report, however disclosure is still limited. There are a few inconsistencies in the law, and some key corporate governance issues are not regulated. Indicators by international organisations show a framework where corruption is still perceived as a critical problem.

Corporate Governance Legislation and Practices in Albania



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Key Areas and Rating	Strengths and Weaknesses
1. Structure and Functioning of the Board *Weak*	*Joint stock companies can be organised under a one-tier or two-tier system, however in the two-tier system, the appointment and dismissal of executives can be assigned to the general shareholders meeting, which makes it more like a "hybrid" system. This does not seem the right approach, as it might reduce the leverage of the board over executives.* *Boards appear to be small. Evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support. However, this does not seem to be the case in Albania.* *Legal entities cannot serve as board members.* *It was not possible to assess if boards have a diversified mix of skills as no company discloses the board members' qualifications.* *All joint stock companies are required to have a majority of independent directors on the board and in the board committees. This seems excessive and does not seem to be well implemented in practice: only two among the ten largest companies disclose having one – and only one - independent board member. There are three different definitions of independence, which does not help for clarity.* *Gender diversity is limited, below South East Europe average.* *Public Interest Entities are required by law to establish audit committees to oversee financial reporting and audit on behalf of shareholders. Only banks seem to have established them. However, this is not a "board committee", as it can be composed of outsiders (i.e., non-board members). It was not possible to assess the activities of board and committees as this information is not disclosed.* *The law does not expressly provide for a clear right of the boards of companies to approve the strategy, budget and to oversee risk appetite.* *There is no practice of board evaluation and no company discloses having a corporate secretary in place.* *Liability of board members and managing directors, fiduciary duties and conflicts of interest are detailed in the law.*
1.1. Board Composition *Weak*	***Strengths:*** • *Legal entities cannot serve as board members.* ***Weaknesses:*** • *Boards appear to be relatively small: five among the ten largest companies that disclosed their board size had 5 board members on average. Evidence has shown that smaller boards tend to perform better provided that they have the necessary mix of skills and support (e.g., corporate secretary) – however, this does not seem to be the case in Albania.* • *Joint stock companies can be organised under a one-tier or two-tier system, however in the two-tier system, the appointment of directors can be assigned to the general shareholders' meeting (GSM). This reduces the leverage of the board over executives.* • *It was not possible to assess if boards have a diversified mix of skills as no company discloses the board members' qualifications. The law requires board and board committees to be made by a majority of independent directors, but these provisions do not seem to be well implemented.* • *Only banks seem to have established an audit committee, which is not a board committee.* • *Only two among the ten largest companies disclose having one – and only one - independent board member.*
1.2. Gender Diversity at the Board (6.2%) *Very Weak*	• *Only five among the ten largest companies (three are banks) disclose their board size.* • *It appears that there are women on boards in two of them: one in each board (average in these boards: 14.3%)* • *In total there are 2 women among 26 board members (five companies), with an average of 6.2 %.*
1.3. Independent Directors *Very Weak*	***Weaknesses:*** • *All joint stock companies are required to have a majority of independent directors. This seems excessive and does not seem to be well implemented in practice.* • *The Law on Banks requires that at least one third of the members of the steering council shall be composed of individuals that at the time of their election and throughout their mandate are not connected through private interest. However, this requirement can hardly be considered as a requirement for independent directors as it does not contain any "positive" criteria and is based on a definition of non-affiliation that is not comprehensive.* • *It appears that only two among the ten largest companies disclose having one – and only one - independent board member. Furthermore, the ground upon which they are considered independent is not clear.* • *There are at least three different definitions of independence which does not help clarity. The definitions in the Company Law and Law on Banks are very succinct; the definition in the Corporate Governance Code focuses only*

Key Areas and Rating	Strengths and Weaknesses
	on "non-affiliation" criteria without spelling out which positive requirements (i.e., objectivity of character and mind) are required from independent directors. It should be pointed out that the concepts of "non-affiliation" and "independence" are different. While non-affiliation can be established by negative criteria only, independence necessarily needs objectivity of mind and character, which is a positive characteristic that should be demonstrated, disclosed and explained in practice.
1.4. Board Effectiveness *Very Weak*	***Weaknesses:*** • *The law does not clearly assign to the boards all its key functions.* • *There is no practice of board evaluation.* • *No company disclose having a corporate secretary in place.* • *It was not possible to assess the activities of board and committees as this information is not disclosed.*
1.5. Responsibilities of the Board *Fair*	***Strengths:*** • *Liability of board members and directors, fiduciary duties and conflicts of interest are detailed in the law.* ***Weaknesses:*** • *The law does not expressly assign to the boards all its key functions.* • *The limited number of independent directors in companies raises doubts about the objectivity of the related party transaction approval process.*

Key Areas and Rating	*Strengths and Weaknesses*
2. Transparency and Disclosure *Weak*	*The law requires and the corporate governance code recommends companies to disclose a fair amount of non-financial information online, however in practice the amount and quality of available information is very limited. There are no listed companies in Albania, hence the expectation for quality non-financial information disclosure is limited. However – as a minimum – we would have expected that at least the law requirements were implemented. Further – even in absence of a stock exchange - banks and state owned enterprises should be subject to higher disclosure requirements.* *A voluntary corporate governance code exists in Albania but it is generally not implemented.* *The law requires large companies and banks to prepare and disclose their financial statements in line with IFRS, however it appears that only the three banks among the ten largest companies comply with this requirement.* *The law requires companies and banks to have an independent external auditor and to disclose its name, but it is not clear who is in charge for the "independence test". Disclosure on this matter is limited. As a note, it appears that in some instances the auditor signs the audit reports only with the name of the firm (not with his/her own name), which is contrary to the practices promoted by the Association of Chartered Certified Accountants (however this practice should now change as in 2016 the law was amended in order to require the auditor performing the audit also to sign the report).*
2.1. Non-Financial Information Disclosure *Weak*	***Strengths:*** • *The law requires companies and banks to have an independent external auditor and to disclose its name.* ***Weaknesses:*** • *Companies and banks are required by law to prepare and publish an annual report, including non-financial information. However, notwithstanding the requirement and sanctions provided by law, only a few companies publish their annual report on their websites.* • *The law requires companies to post the GSM minutes on the company's website, but no company seem to comply.* • *Websites of the ten largest companies are not much informative.* • *Disclosure on directors' qualifications, board's and committees' meetings and activities and beneficial ownership is limited.* • *A voluntary corporate governance code exists in Albania but it is generally not implemented. Only one company (a bank) among the ten largest provides some information about its compliance with the code, but information is limited.* • *The law requires and the corporate governance code recommends companies to disclose a fair amount of non-financial information on the website, however these provisions do not seem to be well implemented. In general the amount of information available on the companies' websites is very limited.*
2.2. Financial Information Disclosure *Weak*	***Weaknesses:*** • *The law requires large companies and banks to prepare and disclose their financial statements in line with IFRS, but it appears that only the three banks among the ten largest companies published their consolidated financial statements in line with IFRS.*
2.3. Reporting to the Market and to Shareholders *Weak*	***Strengths:*** • *As there is no functioning stock exchange in Albania, disclosure expectations are limited.* ***Weaknesses:*** • *The law requires disclosure of price sensitive information, but in practice we could not find any disclosure on this matter.* • *Annual reports and minutes of the GSM are rarely disclosed.* • *In general, it appears that often not even the requirements of the law on companies are implemented.*
2.4. Disclosure on the External Audit *Weak*	***Weaknesses:*** • *The law requires companies and banks to have an independent external auditor and to disclose its name, but only the three banks disclose the auditor's name.* • *Auditors are required to be independent, but it is not clear who is in charge for this "independence test".* • *It appears that in some cases the audit reports are signed by the auditor only with the name of the firm, which is not in line with best practices. However, this seems to have been addressed in the latest amendments to the audit law: Law no 47/2016 now makes it mandatory that an audit report to be signed and dated by at least one of the auditors that perform the audit on behalf of the audit firm.*

Key Areas and Rating	*Strengths and Weaknesses*
3. Internal Control *Weak*	*The internal control system is not well developed.* *Internal audit is required for banks, insurance companies, investment funds and voluntary pension funds.* *Three different laws require companies, banks and public interest companies to create audit committees, but only the three banks among the ten largest companies disclose having an audit committee in place. In all cases, they do not appear to be "board committees" as they are mostly made by outsiders – i.e., non-board members. We are not sure this is the right approach.* *None of the ten largest companies disclose the audit committees' meetings and activities. Because of the limited number of audit committees and independent directors, we have doubts about the capacity of the board to ensure an independent internal audit.* *Banks do not seem to be required to create a separate compliance function.* *Companies are required to appoint external auditors and the audit committee should undertake the auditor's "independence test", however – due to the limited number of companies establishing an audit committee - it is not clear who in practice undertakes this "independence test".* *External auditors appear to be allowed to provide non-auditing services. This needs to be carefully assessed, as the provision of non-auditing services can undermine the auditor's independent. Disclosure on this matter is very limited.* *Banks are required to rotate the external auditor (partner) every 7 years, however, because auditors' report are very often signed with the name of the firm and not with the name of the auditor performing the audit, it is not possible in practice to understand if there is a rotation of the audit partner. However, due to a recent legislative amendment, this practice should change in the future.* *Related party transactions and conflict of interest are regulated by law, however we have doubts that the approval process is undertaken with the necessary independence.* *At the moment it appears that there is no comprehensive whistleblowing legislation.*
3.1. Quality of the Internal Control Framework *Weak*	***Strengths:*** • *Banks, insurance companies, investment funds and voluntary pension funds are required to have internal audit function.* ***Weaknesses:*** • *The law requires public interest entities to create an audit committee with at least one independent member with knowledge of accounting and auditing but only three companies (all banks) out of the ten largest disclose having established an audit committee. In all cases the audit committee is not a "board committee".* • *The role and independence of the audit committees seem to be limited.* • *There is no requirement for banks to create a standalone compliance function.* • *Until June 2016, there was no comprehensive whistleblowing legislation, and the newly introduced law is yet to be implemented.*
3.2. Quality of Internal and External Audit *Weak*	***Strengths:*** • *Banks are required to have internal audit function.* • *Companies that intend to perform statutory audits of banks, insurance companies, investment funds and voluntary pension funds need to be approved by the supervisory authority which exercises supervision over those entities i.e. the Bank of Albania and the Financial Supervisory Authority.* ***Weaknesses:*** • *The law assigns to the audit committee the duty to undertake the auditor's "independence test". However only a few companies have the audit committee in place and in no case it is made by a majority of independent directors.* • *External auditors are allowed to perform non auditing services. Disclosure on this matter is limited.* • *Companies are required to appoint external auditors and to rotate the audit partner every 7 years, however, because auditors' report are signed with the name of the firm and not with the name of the auditor performing the audit, it is not possible to understand if there is a rotation.*
3.3. Functioning and Independence of the Audit Committee	***Weaknesses:*** • *Three different laws require companies, banks and public interest companies to create audit committee, however only a minority appear to comply.* • *The requirement for independent directors in the audit committee is vague.*

Key Areas and Rating	Strengths and Weaknesses
Weak	• *Audit committees appear to be mostly made by outsiders – i.e., non-board members. Hence the audit committee is not a board committee, but a separate body appointed and reporting primarily to the GMS. This is a common practice in a number of countries, but we are not convinced this is the right solution, especially when the functions delegated to the committee are typical board functions. We think instead that it is essential that audit committee members who are recommending specific actions to the board are then able to follow up on them when they are discussed and voted at the board. This would reinforce their positions and the board's 'objective judgement' – to the extent that, of course, those sitting in the audit committee are truly independent and qualified board members. Further, we believe that committees' members should have a thorough understanding of the corporation's business when performing their duties, while 'outsiders' – as they do not sit at the board – might only have a partial vision and understanding of the corporation's activities. While it is legitimate that committees might need external advice or expertise on specific issues, they should be able to request such advice but without allowing outsiders to take the place of board members in their determinations. Finally, committees that include outsiders might have confidentiality and accountability issues, since outsiders might not be bound by the same duties of loyalty and care required to be board members. The key question here is what could a person that it is not a board member add to the debate? The discussion is open. Our opinion is that the structure might be more effective if the board is composed of some independent non-executive members, who should also sit on committees, instead of outsiders.* • *Functions, responsibilities and reporting line of the audit committee are vaguely defined.* • *None of the ten largest companies disclose the audit committees' meetings and activities.*
3.4. Control over Related Party Transactions and Conflict of Interest *Fair*	***Strengths:*** • *Related party transactions and conflict of interest are regulated by law.* ***Weaknesses:*** • *It is not clear whether these requirements are well implemented.*

Key Areas and Rating	Strengths and Weaknesses
4. Rights of Shareholders *Fair*	*Basic shareholders rights are provided by law and major corporate changes require supermajority at the general shareholders meeting (GSM).* *Shareholders representing 5% of the capital can call a shareholders meeting but there is no clear shareholders' right to ask question at the meeting.* *Cumulative voting is not regulated but the law allows shareholders representing 5% of the shares to appoint a member of the board, if so provided by the Articles.* *Insider trading is regulated by law, however there is no evidence that the law is well enforced in practice.* *The law includes a few provisions to impede self-dealing however it is not clear if the practice is effective.* *Disclosure on conflict of interest and related party transactions is limited.* *Shareholders have the right to access corporate documentation.* *Pre-emptive rights are provided by law for limited liability companies only. It is not clear if this applies also to joint stock companies.* *Shares provide equal rights to shareholders and registration of shareholding is required by law. Significant shareholding variations must be disclosed to the National Registration Centre.*
4.1. General Shareholders' Meeting (GSM) *Moderately strong*	**Strengths:** • *Basic shareholders rights are provided by law.* • *Notification with agenda of the GSM should be sent to shareholders at least 21 calendar days before the meeting.* • *Shareholders representing 5% of the shares may call a general shareholders meeting and request certain issues to be put on the agenda. They can also appoint a member of the board, if so provided by the Articles.* • *The law allows shareholders to participate at the GSM not only in person, but also via correspondence including electronic means.* • *Shares carry voting rights in proportion to their value.* • *Shareholders can ask any questions in writing concerning the agenda not later than eight days before the GSM. However, the law does not seem to explicitly grant shareholders the right to ask questions at the GSM.* **Weaknesses:** • *Cumulative voting is not regulated.*
4.2. Protection against Insider Trading and Self-dealing *Fair*	**Strengths:** • *Insider trading and related party transactions are regulated by law.* **Weaknesses:** • *Because companies do not have independent directors at the board, the approval of related party transaction might lack objectivity.* • *There is no evidence that insider trading regulation is well enforced in practice.*
4.3. Minority Shareholders Protection and Shareholders' Access to Information *Fair*	**Strengths:** • *Major corporate changes require supermajority at the GSM (the blocking minority shareholding for major corporate changes is 25%+1).* • *Shareholders have a general right to inspect major corporate documents.* **Weaknesses:** • *The law requires companies to publish the annual reports, but the law does not appear to be well implemented.* • *Pre-emptive rights are provided by law for limited liability companies. It is not clear if this applies also to joint stock companies.*
4.4. Registration of Shareholdings *Fair*	**Strengths:** • *Registration of shareholding is required by law.* • *Significant shareholding variations must be registered into the National Registration Centre.* **Weaknesses:** • *Shareholders agreements are not regulated. They are considered to be enforceable, however there is no consolidated case law on the matter.*

Key Areas and Rating	Strengths and Weaknesses
5. Stakeholders and Institutions *Weak*	*The stock exchange in Albania is inactive.* *Rulings of regulatory agencies are documented and publicly available but not easily accessible.* *International audit firms have a significant presence in the country; however the presence of international law firms is limited.* *International rating agencies are not active in the country.* *A voluntary corporate governance code exists in Albania but it is generally not implemented. Only one company (a bank) among the ten largest provides some information about its compliance with the code, but information is limited.* *There are a few inconsistencies in the law, and some key corporate governance issues are not regulated.* *Indicators by international organisations show a framework where corruption is still perceived as a critical problem.*
5.1. Corporate Governance Structure and Institutions *Weak*	***Strengths:*** • *International audit firms have a significant presence in the country; however the presence of international law firms is limited.* ***Weaknesses:*** • *The stock exchange is inactive.* • *Rulings of regulatory agencies are documented and publicly available but not easily accessible.* • *International rating agencies are not active in the country.*
5.2 Corporate Governance Code *Fair/Weak*	***Strengths:*** • *In December 2011, the Business Advisory Council of the Albanian Ministry of Economy, Trade and Energy adopted a Corporate Governance Code. The Code refers to the OECD Principles and provides some good recommendations. The application of the Code is purely voluntary as it serves as a best practice reference for unlisted companies and is intended to be an inspiration for Albanian companies to develop sound governance frameworks.* ***Weaknesses:*** • *There is very little evidence of the code's implementation and monitoring. This also due to the lack of functioning stock exchange. Only one company (a bank) among the ten largest provides some information about its compliance with the code, but information is limited.* • *There is no case law referring to the Code.*
5.3 Institutional Environment *Weak*	***Strengths:*** • *According to the 2015 EBRD Assessment on Accessibility of Court Decisions, case law seems to be fairly accessible with lack of timeliness in publication of decisions being highlighted as the only major issue.* ***Weaknesses:*** • *There are a few inconsistencies in the law and some key corporate governance issues are not regulated.* • *Indicators by international organisations show a framework where corruption is still perceived as a critical problem.*