



6th SOUTH EAST EUROPE CORPORATE GOVERNANCE ROUNDTABLE

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Enforcement of Corporate Governance Rules

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**Session 1: Progress in Corporate Governance in South East
Europe**

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ALBANIA-CORPORATE GOVERNANCE REFORM AT THE FIRST BEGINNING
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6th Meeting of the South East Europe Corporate Governance Roundtable
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Dear participants

In wishing good luck to this Roundtable I would like to mention here that my presentation is result of a joint contribution of a number of Albanian institutions that have established the Albanian Corporate Governance Forum recently.

Corporate Governance Progress in Albania to date

There are taking place **a few developments** on corporate governance in Albania recently, mostly related to improvements linked with reducing of administrative barriers for business development.

The implementation of business reform measures is driven by a Task Force chaired by the Ministry of Economy based on the development and implementation of the Action Plan "**On the Elimination of Administrative Barriers to Investment**".

The new Government is declared committed to continuing efforts in this direction, and is working towards the reduction of administrative barriers.

The **improvement of the business climate** that should influence indirectly on creating market instrument to encourage the implementation and enforcement seems to be a real priority for the Albanian authorities, which is being combined with the implementation of a number of legal and institutional reforms.

On the other side the **business community is increasing its role in the process of reform**. As a result it is going to be more active in the process of improving the regulatory framework and in advocating for avoiding administrative barriers and bureaucratic behaviour of any kind.

In 2005, through the AATDA-AL's initiative the "Albanian Forum on Corporate Governance" was founded as a network among nine Albanian institutions, mostly representing private sector. It has the mission of contributing towards the implementation of worldwide-accepted standards and principles on corporate governance in Albania.

Certain other developments are considered **the interventions on the area of training and technical assistance**. A corporate governance project in the SEE region run by IFC (International Finance Corporation) has included Albania on its field of intervention. It envisages a number of training sessions directed to some managements, boards, shareholders and other stakeholders. During last years IEKA (Institute of Chartered Accounts of Albania) provided training for accounts and auditors, while the AATDA-AL and Tirana Stock Exchange have been involved in a number of promotional activities, in cooperation with chambers of commerce and business organizations.

Main obstacles to progress

1. The general corporate governance legal framework in Albania is more or less adequate, though the **enforcement is limited**. Despite little progress made over the last years the progress in reforming the corporate governance system in Albania has been modest, while a number of major aspects of the reform are at the very early stages of development.
2. One of major difficulties **is the impossibility for the regulators to act in practice**. The main market regulator in Albania, the Albanian Securities Commission, has been acts as the only authority that has the power of dealing with securities. But, as by Law NO.8080 " On securities", it was given the power to implement corporate governance standards only for listed companies in a licensed capital market that results in no real opportunity to try the power to implement and enforce.

Tirana Stock Exchange has been founded as a market operator by a special law in early 1995, but is still inactive because there are no companies listed.
3. It cannot be said that the **private sector has become aware to a significant extent** about corporate governance, though representatives of private sector are in some how taking a role in the process of reforming the business environment in the country. The interest of the shareholder companies on comprehensive corporate governance principles and practices is still low. That is part due to the lack of needed corporate governance cultures among their boards and managements as well as due to the presence of the informal sector.
4. The **non-adequate efficiency and capacities of the judicial system** to deal with corporate governance matters, associated with a number of limitations in the legal framework and the low level of implementing the decisions and implementation of rule of law in general.

Priorities for reform

The situation calls for an increased attention from the policymakers, market regulators and central administration, associated with process of advocacy for the necessary reforms. Based on the continuous on-site contacts and the expression of interest from a number of local and international stakeholders we consider that this is the appropriate time to undertake actions that encourage the corporate governance system reform in the country. Main priorities are considered:

1. **Strengthening the structures that are responsible for the reform**. In this respect one of the fields for intervention is the amending of the existing legislation and regulatory framework in order to give regulators more power. The Albanian Securities Commission has proposed the amending of the "**Law on securities**" to reflect the need for expanding the base (number) of the companies to be under jurisdiction of the Commission as well as giving the regulator more power to discipline and control the enforcement.
2. **Amending the existing legislation and regulatory framework**. Priority is given to the need for amending the Law 7638 "**On commercial companies**" (Company law) *in order to deal adequately with the issues of protecting shareholder rights*.

3. Undertake adequate measures to make **the regulated market function properly**. There are expected concrete interventions that will allow the re-vitalizing the market activities and re-organizing the capital market.
4. It is needed to intervene to deal with issues **increasing the efficiency and capacities of the judicial system**. Measures should consider how to avoid the several difficulties **to implement the existing legislation**.
5. Efforts should be made toward the **implementation of IAS (International Accounting Standards)**
6. It is needed a **strategy-based effort to increase corporate governance culture**. It should intensified the work to increase the awareness of the shareholders, managements, boards and stakeholders. Preparation and distribution of corporate governance guidelines should be considered as a priority, which will be achieved through a better involvement of local consultancy and academic bodies.
7. There is also necessary to implement interventions **in the area of training and technical assistance for key parties and professions** which are critical to good corporate governance practices, as well as for the business sector.

The Albanian Corporate Governance Forum has identified the directions of its future contribution, which will focus on providing information, assistance and expertise about the needed reform on legal, regulatory and institutional corporate governance system.

*The Forum is going to be involved in a promotional effort that will focus on **providing suggestions on the main directions about a future corporate governance reform**. It will also leading an awareness campaign aimed at the policymakers, private sector and judicial sector with the intention of uplifting the corporate governance system in Albania to some higher standards.*