



ESG in Albania

Sustainability Reporting Assessment

Report Paper

This report paper has been prepared from ICG Research team of experts, as result of a joint endeavour to contribute in the ESG regulatory landscape commissioned by the International Chamber of Commerce in Albania with the support of the Embassy of the Kingdom of the Netherlands.

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INTRODUCTION

This past decade has seen the global economy shifting gradually towards a new paradigm of growth and utilization of resources in essentially more responsible and efficient manners. In part a result of increasing market pressures to provide by caring about ecosystems and a general commitment to address climate change, now green growth is a commonly accepted new normal. COP26 held in Glasgow in November last year, was a clear and loud reiteration of a well-defined global joint effort of more than 200 countries to mitigate climate change risks featuring a green financing platform mobilizing billions in support of the green growth agenda. Glasgow Climate Pact¹ is to be considered the new rulebook based on which governments around the globe commit to work together in reducing gas emissions towards net-zero, support circular economy and transition to renewable energy, with sustainability reporting being at the core of tracking mechanisms in national energy and climate action plans, Albania being one of them.

From a different angle of commitment towards the same cause, corporations around the globe have started their transformation and dedicated an incremental attention to sustainability of their operations aiming to find the equilibrium between growth, resources renewal with attention to communities' well being and reduction of greenhouse gas emissions. In parallel, customers, investors and regulators ever-growing awareness on sustainability is the new rationale imposing a major adaptive approach toward corporate

sustainability reporting focusing primarily on three groups of factors environmental, social and governance, also identified as ESG. In this report paper, we have tried to map out key sustainability initiatives in the global and EU level shaping ESG reporting for corporations and draw parallels of their importance in a Western Balkans perspective with a dedicated focus on the Albanian sustainability landscape, still in early stages. Furthermore, through desk research we have analyzed the level of awareness on environmental, social and governance matters of the top 25 Albanian corporations by turnover. A review of their web presence was conducted aiming to create an understanding of the importance of these factors when projecting their organizations' public profiles.

SUSTAINABILITY AS A BUSINESS MODEL

Albanian economy has left past three decades of free market competition characterized by a high growth pace mainly because of the potential gap that was explored by private sector generating business opportunities, employment and development. The so-called “Shock therapy” marked a shift away from heavy industry shaping the transition from a centralized economy to a free market one in the early '90s, causing underutilization of resources in the country. With trade being at the forefront of the economic activity, small and medium enterprises started to operate and were quick to grow addressing market needs and a high demand for novel products of a consumers base adapting to new trends and tendencies of consumption. The civil conflict of 1997 was another disruptive shock that created some space to the services sector to start shape while made it even more difficult to revive the industry. A structural break not just for the economy but also for state regulatory institutions created the grounds for informality and in numerous cases illegal economic activities at the cost of environment and abuse of natural resources. Deforestation, air and water pollution, extraction of resources without any criteria are just few of the significant damages that started to be caused to ecosystems all around the country. Unfortunately, despite institutions starting gradually to retain back their institutional authority and reinforcing their position, environmental deterioration unfortunately continues to date.

With the growth potential gap closing down, economy has managed to overcome the 2019 earthquake damages in hit areas and

the detrimental impact of the COVID pandemic, however the growth rate has slowed down and is projected to be in the levels of 2% in 2022 according to the IMF². In terms of economic activity is possible to highlight that despite small and medium enterprises employing more than 80 percent of the total labor force in the private sector³, top major 100 companies are systemic and driving forces of the Albanian economy in terms of private investments and sectoral growth. These firms have consolidated over the years and are now expanding in the Western Balkans Region and in some cases even wider in EU and overseas, however is possible to say that attracting foreign investors to be part of these successes still remains a challenge and embedding in global value chains an ambition.

Facing a tougher competition in Regional and international level, Albanian major companies will need to optimize the use of domestic resources and focus on increasing efficiency of operations. Turning the institutional attention towards sustainable growth, to focus on using renewable resources from raw materials to energy while empowering communities and improving the quality of decision-making appears is a new prerequisite that top 100 companies in Albania have to implement in order to obtain and preserve competitive advantages that would allow them to expand beyond the borders. Caring about the planet by developing organization's human capital and fostering long-lasting domestic and international partnerships has to be core of the new operating model Albanian businesses will have to adapt.

WESTERN BALKANS GREEN AGENDA, FROM PARIS AGREEMENT TO EU GREEN DEAL

Developing countries, including the Western Balkans as UN members have on a constant basis joined collective global actions to raise awareness and actively promote national agendas on Sustainable Development Goals and Climate Change Agenda. These commitments over time have served to project global agendas on a local level while preparing key actors and stakeholders to develop monitoring and reporting standards that certain partnerships request. On addressing climate change negative effects, Paris Agreement⁴ could be considered one of the most influential conventions in the 21st century that set the trajectory of action in national level to contribute in lowering greenhouse gas emissions by developing also climate-resilience plans aimed at pursuing the objective “to limit the temperature increase to 1.5°C above pre-industrial levels”. An action, in which developing countries would be closely supported by developed ones to build capacities and deliver in this regard. Albania signed the Paris Agreement on 22nd April 2016 and ratified it later in September. Albania as a signatory country took a commitment to actively contribute in local terms to lower GHG emissions by 2030 preparing the Nationally Determined Contribution (NDC) as a framework document for intended measures to be taken by the Government, revised in 2020⁵, reflecting also key actions agreed in the UN Convention on Climate Change in Katowice 2018. Despite Albania being significantly lower in GHG emis-

sions compared to EU member countries or other industrialized economies, a key matter of concern highlighted in these documents is the lack of qualitative data in measuring emissions putting in question also accuracy of implementing consecutively the action plans.

In November 2019 the European Commission presented the EU Green Deal as a new growth strategy of the European Union “that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.”⁶

The strategy also foresees a close collaboration and support for enlargement countries of Western Balkans to align with the green growth action plan through ongoing integration platforms such as Berlin Process and the Energy Community Treaty, making sustainability a guiding principle in sectorial strategies.

Committed to join the European Union and contracting parties of the Energy Community, a legally binding framework aiming to integrate energy markets of EU member states and neighbouring countries, Western Balkans governments were quick to welcome

the Green Agenda for the Western Balkans⁷. This was a green growth strategy designed by European Commission for the countries of the Region that would systemically support alignment with the ambitious Green Deal while formally following the integration process. The Sofia Declaration⁸ of the WB6 leaders on 10th November 2020 marked the official endorsement of the Green Agenda for the Western Balkans and paved the way for legal and regulatory implementation of five main pillars of the Agenda: i) Climate, Energy, Mobility; ii) Circular economy; iii) De-pollution; iv) Sustainable agriculture and

v) Biodiversity. In addition an Action Plan for the implementation of the Sofia Declaration on Green Agenda was prepared by the Regional Cooperation Council highlighting the importance of business community involvement in support of the sustainability agenda.⁹

ESG REGULATORY REFERENCES IN ALBANIA

In an everyday more interdependent and integrated global economy, companies to grow need to gain the trust of investors by proving a successful business model that is based on quality standards, in compliance with local and international regulatory frameworks and respective legislations. Today more than ever, economic activities need to be environmentally friendly and ensure renewal of resources building the basis for sustainable business valuing people, respecting the planet and building partnerships on this basis. Back in 2005, the term ESG was first used in a report commissioned by the UN Secretary General Kofi Annan under UN Global Compact entitled "Who Cares Wins"²⁰ and prepared by twenty global financial institutions firstly introducing guidelines on how to report environmental (E), social (S) and corporate governance (G) issues as determinants of sustainability in business and value for investors in line with UN climate change agenda. More than seventeen years on, sustainability reporting based on ESG criteria serves as key metrics for investors to value companies and their operations. Despite being of non-financial nature ESG information is essential for investors and potential partners as it purely reflects the purpose of an organization, principles behind the operating model and growth strategy, as well as integrity of management in decision-making. Sustainability through ESG metrics is the way in which a company proves to add value in a society by creating opportunities of employment, addressing needs by providing quality goods and services, and all of this by protecting the planet.

Sustainability as a matter on national importance has been potentiated in Albania through collective actions such as UN's Sustainable Development Goals Agenda persistently promoted by the international organizations present in the country, supported by the Government and embraced by large corporations as an articulated purpose to actively contribute in specific goals closer to the industries they operate. In line with this vocation, Corporate Social Responsibility has become integral as a purposeful dimension of doing business in Albania among some of biggest corporations in a number of industries, where the banking sector is in the forefront of raising awareness on the social responsibility importance and promoting an active role corporations could play in this regard. However, social impact is only one of the aspects of sustainability reporting not dedicating much attention to environmental and governance factors, in this light it is essential that major corporations also take the lead in sustainability reporting on clearly defined ESG metrics reflecting publicly the institutional engagement towards a green sustainable qualitative growth.

If we think of the key regulatory milestones and frameworks orienting the ESG reporting in Albania for each pillar some worthied to mention would be:

- On Environmental dimension, Albania has developed a number of key strategic documents that form the basis of the local actions Albanian Government is engaged to deliver in

mid-to-long term as signatory in international climate change conventions such as Paris Agreement and Glasgow Climate Pact. Two main references are the Nationally Determined Contributions Action Plan that details key actions to be undertaken locally to mirror the global climate change agendas and the Law No155/2020 "On Climate Changes"¹¹ which also serves as a national framework to regulate country's endeavors and related strategies to mitigate climate change related risks setting an institutional system of clear responsibilities to monitor greenhouse gas emissions as a prime objective. In addition, as part of the Energy Community reflecting also commitments coming from the Green Agenda for the Western Balkans, Albania has drafted the National Energy and Climate Plan¹² that serves as an outline of the country climate and energy goals, policies and measures in indicators level from 2021 to 2030, where a clear focus is also dedicated to companies operating in different sectors. Some of these reporting requirements are not yet mandatory, but the earlier companies start to adjust their operations to meet those criteria the higher will be the long term benefit and the shareholder value of the company.

- On Social dimension, the key document regulating labor agreements between employers and their employees is the Labor Code¹³ based on which also human capital related internal policies will need to comply with. Two other important legislative references that frame in a limited level the social responsibility initiatives of corporations are the Law No 7892/1994 "On Sponsorships"¹⁴ and the Law 9901/2008 "On Merchant and Commercial Companies"

that are attempts to guide sponsorship activities from individuals and companies.

- On Governance dimension, for companies operating in industries other than those regulated by law as governance structures (for e.g. banks) this set of metrics is more a subject to internal decision-making from the side of the organization's leadership. However international standards that are generally following in Albania are the OECD Principles of Corporate Governance¹⁵ and a number of corporate governance guidelines developed by the World Bank Group over the years.

Non-financial reporting in Albania is made obligatory for the first time in Albania in 2018 with the last amendments on the Law No 25/2018 "On Accounting and Financial Statements"¹⁶, Article 18, which obliges companies with more than 500 employees to make part of their Activity Report, the non-financial report which should keep in focus main ESG related metrics from environmental indicators to social, employment, governance and anti-corruption policies applied by the respected reporting companies.

INTERNATIONAL REPORTING FRAMEWORKS

ESG frameworks are created to help companies map out their present management conditions when it comes to environment, social and governance criteria. A higher performance in ESG metrics would also mean a higher shareholdings value for ESG investors. In order to standardize their sustainability reporting to mitigate risks, comply with environmental regulations and increase business integrity, Albanian companies will need to enhance their non-financial reporting along the lines of ESG existing frameworks. As commonly accepted references may serve 4 main sustainability frameworks in use today from major corporations worldwide.

- Global Reporting Initiative (GRI), has developed an ESG reporting framework to assist businesses and other organizations take responsibility for their impacts, by providing them with the global common language to communicate those impacts. This reporting is based on the GRI Standards. With over 100 reporting standards, GRI enables businesses and stakeholders to project their performance in relation to environment, social and governance metrics and make more sustainable decisions. The GRI Standards are categorized into a set of modules and industry specific standards.¹⁷

- Sustainability Accounting Standards Board (SASB), the SASB standards are a set of 77 industry standards which can be used by companies to identify and report financially material sustainability information to their investors. SASB lays out specific sustainability

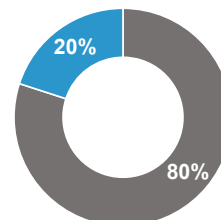
topics and related metrics for each industry, making it particularly useful for organizations that need some help determining which disclosure topics are financially material to their business and which metrics to report. Compared to GRI, SASB tends to look at sustainability impacts through a narrower financial lens. Considering the two frameworks complementary and valuable to investors numerous companies used both SASB and GRI.¹⁸

- International Integrated Reporting Council (IIRC), was created to put an end to the numerous, disconnected corporate reports that companies were creating and replace them with an integrated approach that would “explain to providers of financial capital how an organisation creates, preserves or erodes value over time”. In short, the IRF would make sustainability information available to investors, lenders, and insurers in a concise format. Like GRI, the IIRC’s framework includes environmental, social, and governance (ESG) aspects.¹⁹

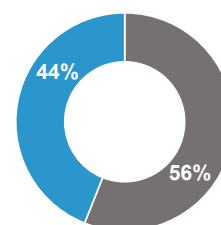
- Principles for Responsible Investing (PRI), serve to understand the investment implications of ESG factors; to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests: of its signatories; of the financial markets and economies in which they operate; and ultimately of the environment and society as a whole. It encourages investors to use responsible investment to enhance returns and better manage risks.²⁰

ASSESSING ESG REPORTING FROM TOP CORPORATIONS

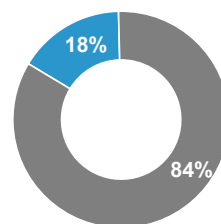
In order to create an understanding of the present voluntary reporting on environmental, social and governance dimensions from major corporations in Albania we have analyzed the web presence of top 25 private corporations by revenues operating in the country. The 25 top companies as per the list published by Monitor operating in the sectors of oil and gas, energy trade, telecommunications, wholesale and retail trade, financial services, construction and services. In terms of revenues the annual turnover in firm-level of top 25 in Albania referring to the audited financial statements published in the National Business Center ranges from 53 million to 382 million EUR as per financial year 2020. Understanding the openness and engagement to deliver in an ESG framework from the side of movers and shakers of the Albanian economy is of a paramount importance to start drawing a roadmap of the necessary steps and potentially an action plan for all involved stakeholders to start working towards creating sustainable development coalitions in support of a growing economy integrated in global value chains while caring and supporting local communities from Kukes to Saranda to thrive. We organized our review based on the reporting activity of the sample of companies in scope paying attention to key reports related to issues important in an ESG dimensions perspective. From 25 companies in focus, only 5 of them prepare on a regular basis annual reports while the 20 other companies do not publish an annual report in their websites or



- have a Code of Corporate Governance and Code of Ethics published on the web
- do not have a Code of Corporate Governance and Code of Ethics published on the web



- publish Corporate Social Responsibility reports on the website
- do not publish Corporate Social Responsibility reports on the website



- prepare Sustainability reports and publish them in the web
- do not prepare Sustainability reports and don't publish them in the web

publish related information in a shape or form. From 5 firms publishing annual reports, three of them are financial institutions, banks, one is a local subsidiary of a global firm and one is a business processes outsourcing company.

Thinking about the Governance dimension and key elements of it we observed that from 25 companies only five of them have a Code of Corporate Governance and Code of Ethics published on the web, two of them banks, two from telecommunications and one BPO company which was also the only one to have a Code of Conduct. Only three companies have in their web presence published Whistle-blowing Policy that would allow employees and costumers to signal witnessed wrongdoings out of which, a bank and a telecommunication company.

On the Social dimension, 11 out of 25 organizations publish Corporate Social Responsibility reports and related information in their website, from these majority are from financial industry, telecommunications, wholesale and services. On health and safety issues we found reports and highlights on the dedication of companies in 10 out of our sample, where in addition to telecommunication, financial services we find also construction and oil and gas major actors in the market. On the Environmental dimension, we found that only 4 companies have prepared Sustainability reports and published them in the web, of which two banks, one telco and one in extractives. Eight out of twenty five companies have paid attention to the environmental

issues in their web pages associating their operations with an eco-friendly approach. From our review covering web presences of top 25 companies in Albania is possible to bring in evidence that sustainability reporting is not considered to be a matter of primary importance when it comes to the public image these firms aim to create. Furthermore in those cases in which is quite evident the drive to build an ESG presence on the web, the reporting is made not structured and far from metrics foreseen in international ESG reporting frameworks.

CONCLUSIONS

With Fourth Industrial Revolution well underway and a reshuffling of global value chains following the COVID pandemic, Albanian businesses, having consolidated over a period of three decades of free market economy, now face the challenge of internationalization and expansion in foreign market and this not just in the Western Balkans region but also wider in European markets and further. In this perspective, thinking about a list of prerogatives to be met, higher operational efficiency, innovative business models based on innovation and first class human capital should all be transposed in an ESG framework that would allow these organizations thrive in a new business values reference system. Overcoming credibility obstacles is still a challenge for Albanian businesses that strive to embed in global value chains. In this regard, unification of the environmental, social and governance standards applied to guide business operations in global level would provide local businesses with an organizational culture that would bring them closer to long term partnerships with foreign partners.

EU Green Deal is now a reality in action and the Western Balkans companies will need to adapt to it in order to benefit from the green financing supporting schemes, with ESG standards as a precondition in this regard. Hence, Albanian leading firms facing a new green growth paradigm, should consider clear plans to direct the transition toward a sustainable business model and track the progress through sustainability reporting in order not to mitigate risks coming from ear-

ly-adapters peer competitors in the Region. Government authorities should also play an active role to promote sustainability reporting through implementation of Article 18 of Law No 25/2018 on non-financial reporting and contributing to a build necessary synergies to successfully implement Green Agenda for Albania. Some of the major corporations in the country still do not consider sustainability reporting to be a matter of primary relevance, but raising awareness on the matter has a crucial importance to speed up the process of convergence towards EU business standards.

ENDNOTES

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