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**ALBANIA**

**Stabilisation and Association Report 2004**

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# ALBANIA

## Stabilisation and Association Report 2004

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## 1. EXECUTIVE SUMMARY

Reform in Albania over the past twelve months has been limited. Despite some progress in specific areas, many of the recommendations included in the 2003 Stabilisation and Association Process (SAP) report have not been properly implemented.

The **political climate** has not allowed for sound reform implementation. The fragile political stability achieved in 2002 has been replaced by tensions between the main political parties and within the ruling Socialist Party (SP) itself. The fight for SP leadership has adversely affected Government stability. With Government attention increasingly focused on these internal difficulties, and with an increasingly obstructive opposition, the reform programme has continued to suffer delays. As a consequence, many shortcomings identified in the 2001 High Level Steering Group Report, the 2002 and 2003 SAP reports, and in subsequent political dialogue with Albanian authorities have not been addressed. The local elections of 12 October were carried out on the basis of a new electoral code. However, serious deficiencies were observed during the elections, and required international standards were not met. The ability of the public administration to implement commitments in respect of the Stabilisation and Association Agreement (SAA) remains an issue of concern.

In the **economic field**, real GDP growth in 2003 has been estimated at 6.0%, up from 4.7% in 2002. At the end of 2003, inflation reached 3.3%, in line with the Government's target. Privatisation of the largest bank of the country, the Savings Bank, has been a notable achievement. Preliminary steps have been taken towards addressing the land ownership issue. However, the medium-term sustainability of economic growth as well as the country's ability to alleviate poverty are being jeopardised by political uncertainty and limited reform focus. The Albanian economy remains informal to a considerable extent. The business environment is inadequate and offers little to encourage investment. Corruption, organised crime, deficient law implementation and administrative inefficiency continue to place barriers to business and to hinder legal security. Despite its achievement in establishing Free Trade Agreements (FTAs) with countries of the region, Albania has been unable to fully implement all its WTO accession obligations.

The Government has continued to state that Albania's progress in the **Stabilisation and Association Process** is a top priority. However, its actions have not always supported this. Despite progress made during SAA negotiations in discussing the text of the future agreement, many of the reforms necessary to guarantee its proper implementation have not been carried out. Of particular concern are those issues central to the rule of law. These include the fight against organised crime and corruption and the functioning of the judicial system. Albania deserves credit for a number of initiatives, including its generally constructive role in the region, the reduction of smuggling/trafficking in human beings over the Adriatic/Ionian Seas and the initialling of a Community Readmission Agreement. But results have fallen short of expectations in the key areas of organised crime, corruption, judicial system and public administration reform. Since Albania wishes to progress on its path towards the EU, it is crucial that it demonstrates the political will, the determination and the capacity to address the key issues identified in this report without delay.

## 2. POLITICAL SITUATION

### 2.1. Democracy and rule of law

*Albania remains a young and rather unstable democracy. The medium-term interest of the country is often sacrificed to shorter-term, narrower political interests. Consolidation of democratic culture is essential to bring about necessary reforms.*

*Albania has adopted a new electoral code based on recommendations formulated by the international community. However, the conduct of the local elections in October 2003 did not meet international standards. Further political will is needed to ensure that elections are free and fair.*

*Some steps have been taken to improve the functioning of the judicial system, but considerable efforts are still necessary to ensure law enforcement, in particular as regards serious crime. Public administration reform has also seen some progress. However, more determination and political will is necessary to create a modern, independent and efficient public administration. Some encouraging efforts have been made to strengthen civil society, but these will need to be intensified.*

*The rule of law in Albania remains deficient. Albanian law enforcement bodies do not yet guarantee consistent enforcement of the law, in accordance with international standards. Widespread corruption and organised crime continue to be serious threats to the stability and progress of the country. Further efforts are needed to ensure full respect of human rights.*

#### 2.1.1. *Assessment of democratic institutions and attitudes to the state*

**Constitution:** The Constitution of Albania was passed by referendum in November 1998 and is an adequate basis for proper development and implementation of democratic principles and fundamental freedoms, including political pluralism, freedom of expression and religion, and respect of minorities. Albania has continued to strengthen its institutional and legal system. Institutions and authorities should ensure that constitutional provisions are properly implemented in all circumstances. They should also accept and implement the decisions of the Constitutional Court.

**President of the Republic:** The President is the Head of State and, according to the Constitution, plays only a limited executive role. He/she is elected by the Parliament for a period of five years. In June 2002 the current president, Mr Alfred Moisiu, was elected by broad-consensus by the political parties. He has made considerable efforts to facilitate the political process and mediate cross-party agreement on fundamental reform issues such as electoral reform, property legislation and judicial reform. His initiatives, though formally limited by the Constitution, have had significant impact.

**Parliament:** The Assembly of Albania (unicameral parliamentary system) has 140 members: 100 are elected by a first-past-the-post system and 40 by proportional representation. The main political parties remain the ruling Socialist Party (SP, 75 seats), and the Democratic Party (DP, 45 seats). A number of smaller parties have formed alliances with the main parties, creating sometimes unlikely coalitions. General legislative elections are expected to take place in 2005. The Albanian Parliament has increasingly taken central stage in political life, and has become the main forum for political debate. The opposition has generally striven to impose its will within the bounds of legitimacy. However, the temptation to resort to boycott remains present, and the DP seriously obstructed the work of the Parliament at the end of 2003 as a protest at both the government's behaviour, and the outcome of the local elections. Despite the often low brow

debates held in plenary sessions and proceedings thereafter, a greater quantity of important issues have been discussed or reviewed by the Parliament than before, including by ad hoc parliamentary committees on electoral reform, property-related legislation, the national intelligence service, the “pyramid schemes” crisis, etc. Nonetheless, there remains considerable room for improvement in relation to the operation of Parliamentary Committees, and in particular investigative Parliamentary Commissions. The parliamentary debate session on the 2003 Stabilisation and Association Process (SAP) Report, and the joint majority-opposition resolution adopted accordingly, firmly placed the Parliament as a central actor on SAP-related issues. However, this resolution has not been properly implemented. Furthermore, in order to better support Albania’s commitment to the SAP, the ad hoc Committee on European Integration should be transformed into a permanent committee with well defined responsibilities.

**Executive:** The Government underwent a new period of instability over the second half of 2003, due to the revival of internal quarrels between Prime Minister Fatos Nano and former Deputy Prime Minister and Minister of Foreign Affairs Ilir Meta. The latter's sudden resignation in July and the dismissal of the Minister of Public Order for an alleged assault on a TV journalist led to these two key ministerial posts becoming vacant for a number of months. Conflicts within the ruling party worsened with the approach of the SP national congress at the end of 2003, and a return to inflammatory rhetoric by both the opposition and the majority, contributed to a deterioration of the political situation. As a result, the Government has been, once again, more focused on internal issues than on the important reforms that should be imperatively undertaken in order for the country to improve its socio-economic situation and to make progress in its path towards the EU. Areas of particular concern falling directly under the Government's remit remain the fight against organised crime and corruption, proper implementation of legislation and stability of administration. Considerable efforts need now to be made in view of drastically speeding up the pace of reforms after the re-establishment of the ruling majority in Parliament and a new Government at the beginning of 2004.

**Public Administration:** There has been some progress in public administration reform over the reporting period, but sustained efforts remain necessary. The adoption of the law on control of officials’ assets in April 2003, the adoption of a new Code of Ethics, the recovery by the Department of Public Administration (DoPA) of its competence on fixing public administration’s salaries have all been positive steps. Steps towards improving the career and salaries system, as well as the various training organised by the Training Institute for Public Administration (TIPA) are also positive elements. Nonetheless, further efforts are necessary in all these areas in order that laws and codes answer to the expectations through proper implementation. TIPA needs to ensure its long term financial sustainability, and progressively to enhance its training capacities to meet the challenge of substantially upgrading Albania’s public administration.

Measures have been taken aimed at extending the scope of the Civil Service Law (CSL), so as to create an overall legal framework with common principles for all civil servants. Civil servants belonging to both the Albanian Public Procurement Agency and Tax Administration are now covered by the CSL and, in addition, steps are being taken to ensure that CSL principles are also applied to customs officials. The Civil Service Commission (CSC) now appears to function better, but should make further efforts to ensure that all its duties under the law are properly implemented. A clearer division of responsibilities and better understanding between Department of Public Administration (DoPA) and the CSC has been established. Progress in the dispute settlement function and in the monitoring of CSL implementation at local level is now crucial.

Despite these steps, long-standing issues such as corruption, political interference, chronic lack of adequate human resources, high turn-over, and insufficient implementation of the public administration-related legal framework, continue to hamper the consolidation of a professional

and independent civil service. In 2003, not all reform objectives were met. Amendments to the CSL were not adopted, contrary to the government's plans, and DoPA was unable to produce very much needed guidelines in respect of recruitment procedures, the career system and disciplinary measures. Progress regarding strengthening of the function of Secretary General in line Ministries, Council of Ministers and the Assembly has been limited. This is a key function which should help to consolidate a clearer separation between the administrative leadership (represented by the Secretary General) and the political leadership. Further progress in this area is deemed essential to the proper functioning of the Albanian public administration.

Although the use of fair and professional selection procedures has seen some progress, subjective nominations remain far too frequent. There have been reports that strong pressure had been exerted by local and central political authorities on civil servants in the months preceding and following the local elections of October 2003. Clearly, this has an adverse effect on the stability and efficiency of the public administration. Albania should therefore make determined efforts to address the above-mentioned problems, and to strive to create a professional and well equipped public administration capable of responding to the many challenges - both present and future – that it faces.

**Local government:** The decentralisation process has continued to make slow but constant progress, and additional autonomy has been granted to local government units. However, there has also been a tendency to increase too much the role of prefects as a local arm of government. The exclusive functions of municipalities and communes have become clearer. Substantial fiscal authority has been assigned to local government structures. In relation to competences, a number are now decentralised. Nevertheless, important areas such as water and sewage, and education and social protection, remain mainly under control of the central authority. The success of decentralisation depends very much on the proper and continuous strengthening of local capacities accompanied by adequate training programmes. In this respect, the proposal to establish a new training centre for public administration officials including locally elected government members and employees is a commendable initiative. The review of the existing administrative map and the new territorial division to be launched in 2004 is a very important step in the framework of the territorial administrative reform. Local government boundaries will be redrawn with many smaller communes merging to create fewer and larger units. This process has significant political implications and should be carried out in a constructive political climate, with the involvement of all stakeholders.

The **local elections** of October 2003 were carried out on the basis of a new electoral code, which was adopted in June 2003 thanks to exceptionally constructive co-operation between Albania's two main political parties. The new code integrates many of the recommendations made by the international community in the aftermath of the 2001 Parliamentary elections, including the recommendation that a special judicial body responsible for addressing complaints be set up. However, substantially improved elections did not materialise. While the elections process was praised in respect of the adoption of a new legal framework, the behaviour of the police, the improved appeal system and generally balanced media coverage, serious shortcomings were also observed. Concerns focused particularly on areas such as voter registration and voter lists, delays in the release of campaign funds to political parties, the lack of effective rules of procedure within the Central Electoral Commission, the low level of knowledge prevalent amongst mid- and lower- level election commission members (especially at local level) as to the new code, and unacceptable delays and interferences in the counting and tabulation of results. Furthermore, the percentage of female candidates continued to decrease, and "family voting" prevented many (especially women) from properly exercise their rights. During crucial moments, political parties did not show sufficient commitment to democratic principles. The post-electoral phase was particularly difficult. Results in Tirana were only made available weeks after the voting, and were heavily contested by the opposition. The Electoral Court requested a re-run of the elections

in over 30% of the voting centres in the capital, i.e. in 118 voting centres. Despite very low participation (27%), the re-run process in December was calm and orderly, and confirmed initial results. On the other hand, the re-run of elections in the Himara region and other areas proved highly problematic. In Himara, the occurrence of serious manipulations obliged the Central Electoral Commission to take the drastic decision of reversing preliminary results. The final conclusion is that more efforts and political will by all actors are necessary in Albania in order to ensure fully democratic elections.

**Civil Society:** Some progress has been made over the reporting period. Various actions have been implemented by civil society organisations in order to contribute to the development of the country. Initiatives have been undertaken to encourage collaboration between state institutions and civil society organisations. For example, the Ministry of Labour and Social Affairs signed an agreement of cooperation with representatives from some 110 NGOs in the fields of social services delivery and poverty reduction. Civil society organisations have been involved in the drafting of national strategies in relation to important social areas such as children and anti-trafficking. There are also other cases of cooperation with trade unions or employers associations. The Assembly of Albania has approved an internal regulation allowing attendance of civil society organisations at sessions of parliament. Public campaigns organised by civic movements, such as the “*Mjaft!*” (*Enough!*) campaign countering public apathy, as well as other actions addressing local community needs, have achieved a certain degree of success. Strong pressure from civil society organisations also contributed to the resignation of the Minister of Public Order following an incident with a TV journalist. The participation of these organisations in monitoring the local government elections of October was also a positive step.

Nonetheless, civil society in Albania remains weak. Professional organisations, think-tanks, and both civic and grass-root associations remain limited and lacking in the organisational experience, financial resources and advocacy skills necessary to influence decision-making. NGOs are more numerous, but have similar problems and are considerably dependent on foreign funding. Trade Unions are also weak, with limited affiliations. Concrete initiatives combined with a more proactive government role remain essential to civil society development in Albania.

**Armed Forces:** The Albanian authorities have continued to show willingness to co-operate actively with the international community, and a limited number of Albanian troops are participating in the ongoing operations in Afghanistan and Iraq. Albania has continued to implement its 2002 Military Strategy on Defence, which is aimed at progressively meeting NATO standards.

### **2.1.2. *Assessment of judicial system, law enforcement and respect for the rule of law***

**Judicial System:** Despite some limited improvements, the Albanian judicial system remains weak. Recommendations included in the 2003 SAP report have only been partially implemented. The professional capacities of judges, prosecutors, judicial police and administrative staff remain limited, and infrastructures and equipment are inadequate. As a consequence, the overall performance of the judicial system is poor, as is its perception amongst the general public. According to surveys of the Southeast European Legal Development Initiative (SELDI), corruption encompasses all actors of the judicial system, including judges, prosecutors, administrative staff and lawyers.

In terms of legislation, a number of amendments to existing laws have addressed issues such as judge and prosecutors’ salaries and court organisation, including the High Council of Justice, which is the authority responsible for the protection, nomination, transfer, discharge, career, education, professional evaluation and inspection of activities of judges. Some legislative improvements have also taken place regarding the prosecution office and judicial police. In addition, a number of international conventions have been ratified such as: the European Convention “*On the international Validity of Criminal Judgments*”; an additional protocol to the

European Convention “*On Cyber-crime, concerning the criminalisation of acts of racist and xenophobic nature committed through computer systems*”; and an Additional Protocol to the “*Criminal Law Convention on Corruption*”. At the EU-Western Balkan Forum JHA ministerial meeting of November 2003, Albania, together with the other Western Balkan countries, presented a commitment to establish regional co-operation amongst prosecutors with the aim of facilitating proof-taking.

However, the career structure and salaries of judges and prosecutors needs further improvement, as well as legal provisions on the transfer and promotion of magistrates. Appointments to senior positions are often arbitrary. The direct appointment of judges and prosecutors, although provided for by law, constitutes a serious subject of concern, particularly since this tends to be the norm, rather than the exception. Only transparent and competitive examinations can help to guarantee the selection of skilled and independent judges and prosecutors, based on objective and impartial criteria. The same overall lack of transparency and impartiality affects other important aspects of judicial operations including case management within prosecution offices and courts, and the assignment of cases to judges and prosecutors. Moreover, the courts do not regularly publish court decisions, and the availability of those published is not sufficiently wide. The systematic publication of court sentences would increase transparency and contribute to decisions of higher quality.

The system of internal control of the performance and ethical conduct of judges and prosecutors is assigned respectively to the High Council of Justice and the General Prosecution Office. Nonetheless, the Ministry of Justice is also empowered to carry out inspection activities, which may pose a threat to the independence of the judiciary. In addition, the internal inspectorates of both the High Council of Justice and the General Prosecution Office are not sufficiently effective and immunity for judges and prosecutors can easily convert into impunity. In 2003, a total of twenty five disciplinary proceedings were concluded against nineteen prosecutors and six judges, leading to the dismissal of eleven prosecutors and three judges. However, practically no criminal proceedings have been initiated against judges and prosecutors. More attention should be paid to the ethical training of the judiciary.

The School of Magistrates, which is entrusted with the selection and training of judges and prosecutors, continues to carry out its tasks with relative success, and has implemented training activities focused on EC legislation and international conventions. However it chronically lacks budgetary resources and its operation is crucially dependent on the continuing financial and organisational support of international donors and partners. The adoption of a well-thought out medium/long term strategic plan is particularly important.

The limited prosecution of serious crimes continues to be a matter of concern. Albania has taken steps to address this issue through the establishment of a Serious Crimes Court. Measures should now be taken to ensure the adequate functioning of this Court. In this context, the adoption of adequate legislation on witness protection is seen as a crucial element to support the proper functioning of criminal justice. In addition, it is also important that serious public allegations of criminal behaviour against specified persons be investigated and lead, where appropriate, to prosecution.

Some progress has been made regarding the execution of court sentences. The execution rate during the first six months of 2003 reached 52% (execution rate in 2002 was 48%). Nonetheless, efforts should continue in order to further improve the functioning of the Bailiffs Office and to accelerate the execution of sentences, particularly when the state is the losing party.

**Prison system:** According to the Albanian authorities, the Albanian prison population stands at approximately 2 200. Despite completion of the Rogozhina prison and Kruja Mental Institute in 2002, Albania’s prisons generally remain in poor condition. There is a persistent problem with overcrowding and, as a result, approximately 300 convicted prisoners are still being held in

police stations. The prison at Peqin was completed in mid-2003. The completion of the Lezha and Fushe-Kruja prisons in 2004 should help improve the situation.

Albania has been unable to address the situation of prisoners held at pre-detention facilities (mainly police stations - approximately 1300 on remand and 300 already sentenced). Responsibility for this matter has been legally transferred from the Ministries of Public Order to the Ministry of Justice but practical results have so far been very limited. Concrete action in this area remains a matter of urgency. Measures should be taken to ensure the respect of basic human rights principles in pre-trial detention procedures. In addition, Albania should take steps towards the establishment of an adequate juvenile justice system.

**Rule of law:** Little progress has been made in Albania as regards general respect for the rule of law. The rule of law remains adversely affected by the weaknesses of the judicial system and public administration, as well as by organised crime and corruption.

**Corruption** in Albania remains a serious problem. According to the 2003 Transparency International Corruptions Perceptions Index, Albania has a score of 2.5 out of 10 (where a country free of perceived corruption receives 10 points on the scale), ranking 92 out of 133 countries.

Albania participates in the Council of Europe's Group of States against Corruption (GRECO) and other international anti-corruption initiatives. The Government has continued with the design and implementation of Action Plans against corruption. The 2003-2004 Plan was adopted in August 2003. In September, a Triangular Commission involving the Government, Civil Society and the General Prosecution was set up. The "Law on the Declaration and Control of Assets, Financial Obligations of the Elected and some Public Officials" was enacted. As far as Criminal Law provisions dealing with corruption are concerned -following Albania's ratification of the European Conventions on Corruption (in criminal and civil matters)- a working group of national and international experts has been set up in order to work out proposals to harmonise the provisions of the Conventions with existing Albanian legislation. In this respect, it is expected that a package of draft legislation will be adopted by the Parliament during the first half of 2004.

In relation to the organisation of law enforcement bodies, a specialised unit attached to the Tirana Prosecution Office has been set up, with the responsibility of dealing with crimes related to the areas of Taxation, Customs, Public Procurement and financial crimes in general. Albania needs to ensure that this unit also covers corruption cases. The unit reportedly consists of three prosecutors and five judicial police officers specialised in investigating crimes in the aforementioned areas.

However, despite the above-mentioned developments, concrete results in the fight against corruption remain very limited. According to the General Prosecutor's Office, in the first half of 2003 there were a total of 271 proceedings in relation to corruption. However, most of these proceedings related to a Criminal Code provision ("Abuse of Office"), which is less serious and more leniently punishable than bribery-taking. The problem in Albania is not the absence of strategies and legislation, but rather deficiencies in their implementation and enforcement. Anti-corruption action plans should be better designed and implemented in order to address effectively Albania's corruption problems. In particular, measures should be realistic, precise and measurable, and should not only deal with good governance, but should also include specific anti-corruption actions. Communication and coordination between the ministries, institutions and organisations represented in the Anti Corruption Monitoring Group (ACMG) should also be improved. Furthermore, the adoption and implementation of more effective legislation against bribery, as well as the reduction of the list of officials covered by immunity and the strict compliance with immunity-related international rules and practices, would also contribute to fighting corruption more efficiently.

## 2.2. Human rights and protection of minorities

*Human rights and fundamental freedoms are guaranteed by the Albanian legislation. However, efforts to ensure their enforcement should be further enhanced. Law enforcement bodies remain insufficiently acquainted with human rights obligations, and serious allegations of mistreatment continue to be made against the police. The judiciary needs to be better prepared in order to deal properly with human rights cases. Attempts by the Government to interfere with the media have reportedly continued. In respect of economic rights, some progress has been made regarding the issue of the restitution/compensation of confiscated land through the preparation of new legislation.*

*Albania should also make further efforts to reach higher standards concerning the protection of minority rights. In particular, it needs to meet requirements regarding the accurate evaluation of the size of minorities in Albania, and to improve the minority-related legislation so that it supports the implementation of international conventions ratified by Albania in this area.*

### 2.2.1. Civil, political, economic and social and cultural rights

The Albanian Constitution remains an adequate basis for the proper implementation of **human rights and fundamental freedoms**. Albania ratified the European Convention on Human Rights (ECHR) in 1996. Some efforts towards approximating Albanian legislation with this convention have been made over the reporting period, with for example the adoption of a new Family Code claimed to be compatible with ECHR. Nevertheless, Albania should be more ambitious in attempting to improve its human rights record. More convincing steps should be taken to address cases of police maltreatment or to tackle properly the deplorable conditions faced by people detained in police stations. Further action aimed at tackling human rights-related issues such as the enforcement of court decisions, the protection of the right to property, and the compensation of formerly prosecuted groups should be taken. Trafficking in human beings remains a serious problem and should be addressed more vigorously (see also item 4.4.5 on Organised Crime).

The **rights to seek redress, a fair trial or protection against arbitrary arrest or detention** all exist in law. However, implementation and enforcement of these rights remains poor, and a much more proactive attitude is necessary from the Government. **The right to vote** is guaranteed by the 1998 Constitution. Nonetheless, the structural shortcomings of Albania's electoral system, most notably the inaccuracies of the voter's register and the practice of group/family voting, have led to difficulties in properly exercising this right. In September 2000, Albania abolished the **death penalty** in peacetime. The **right of assembly and demonstration** is generally respected and opposition rallies normally take place without major incident. However, efforts should be made to improve the police preparation to handle in an adequate manner tense or violent situations which may occur during demonstrations.

The **freedom of the media** in Albania is guaranteed by the Constitution. In July 2003, the Assembly approved amendments to the Law on Public and Private Radio and Television aimed at fighting piracy. However, despite the large number of newspapers and other written/broadcast media in Albania, none are completely immune from political or financial pressure. Increased transparency regarding media ownership is crucial. Allegations of Government attempts to influence media reporting, through generally subtle forms of pressure (financial and fiscal pressure for example), or through systematic recourse to defamation suits, have continued. In this regard, the Government should refrain from any attempts to use pressure or harassment against media outlets, and should bring defamation law into full compliance with European standards.

Albania should also take further steps to encourage the development of a sustainable and professional media. It needs, in particular, to: update and enhance legislation relating to printed

and electronic media, taking into account EU standards as appropriate; finalise the National Plan for Radio and Television Frequencies; take concrete action aimed at ensuring the independence of the National Council on Radio and Television; and complete the transition of the Albania RTV from a state television to a neutral public service broadcaster. Moreover, measures should be taken in respect of improving journalists working conditions, as the current situation does not promote the development of objective and professional journalism.

During 2003, the office of the **People's Advocate (Ombudsman)** dealt with about 4000 complaints. However, 40% of the cases were found to be outside the competences of the office. From those admitted, 25% were resolved in favour of the complainant. Although, public awareness of the Ombudsman's function has continued to grow, further efforts should be made in order to promote this institution and to broaden its competences. While the most common complaints examined by the office have concerned police behaviour and the lack of enforcement of court decisions, it has also been dealing with issues related to the electoral process and to the improvement of public services for citizens.

The **right to property** remains legally guaranteed. With the support of OSCE, new legislation has been prepared in order to address the long overdue constitutional requirement concerning the restitution/compensation of land confiscated during the communist period. The final draft of this law on Recognition, Restitution and Compensation of Property was delivered to the Assembly in November 2003. The two major political parties have supported in principle this draft legislation, but smaller opposition parties and ex-owners associations have expressed strong objections in respect of provisions dealing with restitution and financial compensation. Although the legislation will not be able to satisfactorily address all claims by all parties, this draft law - if properly implemented – would be a solution to resolve this issue to a large extent, which continues to hamper Albania's socio-economic development. In any event, the Albanian Government should make available, as soon as possible, all necessary data to determine the land available for restitution or compensation; identify clearly all outstanding restitution and compensation claims; and develop a credible financial plan capable of covering of possible compensation costs.

The relative progress achieved in the field of **social dialogue** can be seen in increased collaboration between state structures and workers' organisations at institutional level. For example, this progress can be seen in the participation of trade unions and employers' associations in important institutions such as the National Council of Labour or the state Social Insurance Institute which is in charge of the pension systems management. Also, the signing of a memorandum of understanding between the Ministry of Labour and Social Affairs on behalf of the Albanian Government and the two main Albanian trade unions was a positive step. The memorandum is aimed at improving labour legislation, including the Labour Code, in accordance with international labour standards. However, insufficient implementation due, amongst other things, to a lack of adequate structures and capacities remains an important issue to be addressed. There is much to be done regarding rights of workers in the private sector. Trade union organisations still remain weak in organisational and training terms. Efforts aimed at increasing affiliation numbers as well as de-politicisation need to be further enhanced.

Despite initiatives such as the establishment of a Committee for Equal Opportunities and the endorsement by the government of a Gender platform for women based on the Beijing Platform for Action (1995), **gender equality** is not yet sufficiently enshrined in Albanian society. While it is possible for women to accede to important political, social and economic posts, the tradition of a male-dominated society remains predominant particularly in rural areas. Actual progress in this area, if any, remains limited. For example, even though already poorly represented in politics, there was a minimal representation of women as either candidates or electoral commission officials during the 2003 local elections (indeed the female presence was lower than it has ever

been since the fall of the communist regime). Concrete steps should be taken to improve this situation.

**Academic and religious freedoms** are guaranteed by the Albanian Constitution and are generally exercised without particular limitations. Albania continues to be a good example of religious harmony. However, sustained efforts should be made in order to reform the education system and enhance its quality. The issue of education in minority languages deserves continued attention.

### 2.2.2. *Minority rights and refugees*

Under the existing legislative framework, there are three recognised national minorities (Greek, Slav-Macedonian and Montenegrin), and two cultural minorities (Vlach and Roma) in Albania. However, the largest group is the Greek minority, found principally in southern Albania. Albania's legislative framework is not sufficient to comply fully with the requirements of the Council of Europe's Framework Convention on the protection of National Minorities, to which Albania is a party. The provision of primary and secondary legislation in minority languages is still required in order to fully implement all constitutional provisions and laws. Albania should therefore take determined steps to improve its minority-related legislation so as to ensure the implementation of the relevant constitutional provisions, as well as the respect of the obligations resulting from the international conventions that Albania has ratified.

Albania should aim at higher standards in the protection of minority rights. It should devote more attention properly to address the claims of its minorities (for example, incidents leading to justified complaints by the Greek minority have occurred in relation to the conduct of the last local elections). Despite Albanian commitments in the framework of its political dialogue with the EU, a government report outlining with precision the size of each national minority in Albania remains overdue. The staff dealing with minority issues also remains very limited. Some progress has been made in finalising and adopting the National Strategy for the Improvement of Roma Living Conditions, but implementation is still inadequate, and concrete action in favour of this minority remains limited.

In conclusion, Albania should be more ambitious and strive to ensure adequate protection of minority rights throughout the whole Albanian territory in conformity with the Council of Europe's Framework Convention on the protection of National Minorities.

The number of **refugees** in Albania continues to be small and does not constitute a great problem.

### 2.3. **Regional and international co-operation/obligations**

*Albania has maintained a generally constructive attitude towards its regional and international relationships.*

*Albania's relations with neighbouring countries have continued to improve. Albania has concluded all the required Free Trade Agreements (FTAs), in accordance with the Memorandum of Understanding for Trade Facilitation under the Stability Pact and has ratified most of them.*

*In the multilateral field, Albania has remained an active member of the Council of Europe (CoE) and OSCE, and has contributed to the main initiatives for regional co-operation in South-East Europe. However, international obligations have not always been met due to the general difficulty Albania has in implementing and enforcing legislation. The ongoing negotiations for a Stabilisation and Association Agreement (SAA) have revealed that Albania is encountering certain difficulties in fully implementing all its WTO accession obligations. Albania is now taking steps properly to address this issue.*

### 2.3.1. *Regional co-operation*

Albania is a member of many of the initiatives currently taking place in the Balkans, including the Stability Pact for South Eastern Europe and the South-Eastern European Cooperation Process (SEECF). Albania has been co-chairing the Stability Pact's Working Table on "Local Democracy, the Media, and Cross Border Cooperation" and, in December 2003, it hosted the Stability Pact Regional Table. Albania also participates in the South East European Cooperation Initiative, the Adriatic-Ionian Initiative and the Black Sea Economic Forum. Albania is an active participant in these initiatives.

Albania has played an ever increasing role in encouraging inter-regional stabilisation, political dialogue, and trade and economic co-operation. It has generally maintained a non-interfering and neutral stance concerning Albanian minorities in neighbouring countries. Albania has successfully completed the negotiations for Free Trade Agreements (FTAs) with the signatories of the 2001 Memorandum of Understanding for Trade Liberalisation and Facilitation<sup>1</sup>, although only the FTAs with Croatia, FYROM, Bulgaria and Romania are currently in force. Albania has also concluded an FTA with UNMIK/Kosovo and has started FTA negotiations with Turkey. In addition to trade, Albania also aims at further enhancing relations with its neighbours in relation to other important areas such as the fight against organised crime, judicial co-operation, border and visa-management, readmission, environment, transport and energy. These efforts should be pursued with vigour.

Relations between Albania and the **Former Yugoslav Republic of Macedonia (FYROM)** have continued to improve. The FTA between both countries is producing its first results with bilateral trade increasing. Political dialogue has been very active between both countries. Many ministerial meetings have taken place, discussing political, economic and social developments. These contacts have provided the platform for the planned Agreement on Neighbourhood and Friendship. Border incidents have been limited over the reporting period, which is a positive step. However, cross border relations and border management should be further enhanced in order to fight successfully against organised crime and all types of trafficking, as well as to prevent new border incidents.

Relations with the State Union of **Serbia and Montenegro (SCG)** are reasonable, despite some tension following the signature of a FTA between Albania and UNMIK/Kosovo and declarations by the Albanian and SCG's Parliaments related to Kosovo's future. Due to the restructuring of the Serbian and Montenegrin state, some outstanding agreements have not yet been ratified by both states, namely the agreement to avoid double taxation, and agreements in the fields of health, tourism and investment. In November 2003, the FTA between SCG and Albania was finally signed. Preparations are also underway for a bi-lateral Agreement on Organised Crime and Illegal Trafficking.

Relations between **Croatia** and Albania have continued to be positive. The FTA between the two countries entered into force in spring 2003, although some difficulties in implementation have been experienced at customs points due to poor knowledge of the agreement's provisions. In 2003, bi-lateral agreements were signed in the areas of health, customs cooperation and readmission. Steps have also been taken towards easing visa policy between both countries. High level political dialogue has continued.

Relations with **Bosnia and Herzegovina (BiH)** have also developed in the right direction, although bilateral contacts are limited. A FTA was signed in November 2003 and its entry into force is expected during the first half of 2004. Agreements on transport, education and science,

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<sup>1</sup> Albania, Bosnia Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro.

as well as on visa liberalisation for owners of diplomatic and service passports, have also been signed.

Relations with **acceding and candidate countries** are constructive and have mainly focused on their experience of striving for EU integration. Several agreements have been signed with Bulgaria (on transport, health, customs). Relations with Turkey are good and co-operation has focused on defence, air transport and public order. As indicated above, the FTAs with Bulgaria and Romania are already in force, and an FTA with Turkey is under negotiation.

Relations with **Italy** have continued to strengthen. This has been confirmed by the number of high level visits paid to the country during the year. Italy is Albania's main trade partner. Albanian imports from Italy represent over 30% of total imports. Albania exports to Italy represent over 70% of total Albanian exports. Given the strength of these economic relations, a pilot project for a central office, composed of all public and private Italian entities active in Albania, has been established. Italy has also remained Albania's primary donor. The implementation of the 2002-2004 Co-operation Protocol between both countries (€205 million during a three-year period, in addition to €160 million for programmes already underway) has continued, with emphasis on roads and transport, water and sanitation, energy, agro-industry, public health, private sector development and social and institutional support. Co-operation between Italian and Albanian local and regional entities has also increased, as has Italian support in key JHA-related areas through the establishment of police liaison officers in Tirana, and the involvement of both the "Guardia di Finanza" and the Italian army.

Relations with **Greece** have remained positive. A Programme for Cultural Co-operation has been ratified, as have several other bilateral agreements, most notably in the areas of health and military co-operation (e.g. and agreement for the reconstruction of the naval base at Bisti i Palles was ratified). Trade relations have remained strong, with Albanian imports from Greece rising to about 22% of total imports. On the other hand, Albanian exports to Greece represented approximately 13% of the country's exports. Along with a number of small and medium size assistance programmes already underway, another €50 million has been earmarked for a five-year period of assistance to Albania, in the context of the Greek Plan for Economic Reconstruction of the Balkans. Economic co-operation covers many sectors. Greek direct investments are estimated to be over €500 million. A new border crossing point was inaugurated at Tri Urat, while it is foreseen that another one at Qaf Bote-Konispoli will be constructed with Greek aid in order to improve the overall management of common border-crossing points.

### **2.3.2. *International co-operation and obligations***

Albania is member of a number of international organisations, including the Council of Europe (CoE), the Organisation for the Security and Co-operation in Europe (OSCE) and the World Trade Organisation (WTO). Albania has also ratified a considerable number of international conventions in all areas. However, actual implementation remains deficient. In this respect, it is important that the Albanian authorities take determined action in order to improve Albania's overall implementation record.

Albania joined the **Council of Europe** in 1995. The consequent legal commitments of membership are being fulfilled. However, this process is being carried out at far too slow a pace. Enhancing implementation of the CoE conventions should be a priority for the Albanian authorities, as these conventions address issues of particular importance such as, for example, the protection of human and minority rights, and the fight against corruption.

Albania acceded to the **Organisation for Security and Cooperation in Europe (OSCE)** in 1991, and in 1997 the OSCE began its work in Albania when an office ("The OSCE Presence in Albania") was established in Tirana. The 15 field stations initially established have been reduced to 5. The OSCE's original mandate has been amended several times. In the second half of 2003,

this mandate was updated and renegotiated with the Albanian Government. It will now focus on specific issues such as property, regional administrative reform, elections, the Parliament, and sectoral-related issues. In line with its current mandate, the OSCE is assisting the Albanian authorities in important areas such as the development of the property-related legislation, the continuation of electoral reform, the improvement of the Albanian civil registry and the functioning of democratic institutions. The OSCE has also proved to be an important actor in facilitating inter-party cooperation. Encouragingly, Albania successfully chaired the Forum on Security and Co-operation, one of the pillars of the OSCE, between January and April 2003.

Albania has been a member of **World Trade Organisation (WTO)** since September 2000. Despite relatively rapid general liberalisation and claims by the authorities that Albania had no particular problem in complying with its WTO schedule, it has since become clear in the context of the ongoing negotiations for a Stabilisation and Association Agreement, that Albania has indeed had difficulties in meeting all of its WTO commitments and that occasionally, it has even introduced measures contrary to them. Albania has now taken steps to regularise this situation. It is important that, in future, these occurrences are avoided. Otherwise, they risk undermining Albania's credibility as a serious trade partner.

Albanian efforts to become a member of the **North-Atlantic Treaty Organisation (NATO)** are ongoing. Albania has been party to regional collaboration in creating a NATO strategy for membership with its neighbours. In May 2003, Albania signed, together with Croatia and FYROM, an Agreement with the US (the "Adriatic Charter") – the main objective of which is to facilitate NATO accession.

As regards the **International Criminal Court (ICC)**, Albania ratified in June 2003 a bilateral immunity agreement with the United States which regrettably runs contrary to the "EU guiding principles concerning arrangements between a state party to the Rome Statute of the ICC and the United States regarding the conditions of surrender of persons to the court"<sup>2</sup>.

### 3. ECONOMIC SITUATION

#### 3.1. Current Economic Situation

*Following reduced GDP growth in 2002, the economic situation in 2003 points to sustained growth of about 6%. A number of elements, notably political instability, uncertain electricity supply and pending structural reforms could however weigh against current performance.*

*Export performance improved in 2003, but the trade deficit, estimated at some 21.5% of GDP remains very large. As usual, a substantial and stable inflow of remittances from Albanians living abroad (estimated at 12% of GDP) has compensated for the trade figures, whilst the current account deficit is projected to have decreased slightly, to around 8.5% of GDP.*

On the basis of preliminary data, **real GDP growth** in 2003 is estimated to have reached the 6% target, compared to an estimated 4.7% growth in 2002. This increase in growth has been supported by improvements in power supply, allowing for higher levels of economic activity, as evidenced by increased industrial sales indices in almost all major sectors. A modest increase was also registered in agricultural production, following the repair of the irrigation system which had been damaged by the floods of September 2002. However, these developments remain subject to downside risks, such as political instability, uncertain electricity supply and pending structural reforms. Another concern relates to the concentration of economic growth in few sectors, such as services and construction. Albania's **GDP per capita** amounts to about €1600.

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<sup>2</sup> The guidelines were adopted by the Council on 30 September 2002.

According to the Albanian statistical office (INSTAT), **unemployment** reached about 16% at the end of 2003, which represents a slight increase compared to 2002 (15.8%). Unemployment figures should however be treated cautiously, as an important number of those people unemployed do not register with social security services and are active in the shadow economy. According to the International Labour Organisation (ILO) the level of unemployment in the country was higher and reached about 38% at the end of 2003.

Supported, as in the recent years, by cautious monetary policies, **inflation** was kept under control in 2003. It reached 3.3% at the end of the year, a figure in line with the 2-4% target, while average inflation stood at 2.3%. This allowed the central bank to ease its monetary policy by lowering its repo rate by 200 basis points between April and December 2003. The key instrument of monetary policy continues to be the repurchase agreement rate. Its impact on market rates should however be improved through open market operations. Given the quasi monopolistic character of the banking sector, the authorities have developed a new marketing channel for treasury bills outside of the banking system, which should contribute to a diversification of the demand and, thereby, to a reduction over time of the important interest margin relative to deposit rates.

The current **exchange rate** of Albania is still classified as independently floating. However, given that Albania's exchange market is quite narrow and can be easily affected by large transactions, the Bank of Albania intervenes when necessary to smooth the exchange rate fluctuations of the Lek versus the US dollar and the Euro. During 2003, the Lek remained quite stable compared to the Euro and appreciated by about 20% compared to the US dollar.

On the **fiscal side**, total tax revenues, including social security contributions, are estimated to have reached about €1,100 million, representing some 20.1% of GDP. This corresponds to a one percentage point increase, compared to 2002. Nevertheless, tax revenues collection is estimated to have been below the target by at least 0.5% of GDP in 2003. With a view not to endanger the budget deficit ceiling, fixed at 6.4% of GDP in the programme, expenditure cuts were necessary, consistent with the contingency plans prepared by the authorities in June 2003. These cuts consisted mainly in savings on electricity subsidies (helped by improved supply) and personnel spending. According to recent estimates, the fiscal deficit, before grants, reached 5.6% of GDP. **Public debt** is estimated to have decreased to 61% of GDP in 2003, from 63% the year before. Out of this, domestic debt represented 38% of GDP, both in 2003 and 2002.

On the **external side**, the 2003 **current account deficit**, excluding official transfers, narrowed to 8.5% of GDP, from 9.1% in 2002. This improvement is based on a significant narrowing of the trade deficit, estimated to have reached 21.5% of GDP, compared to 22.8% in 2002. The improved supply of electricity has apparently supported a relative improvement in export performance. Albania's **trade deficit** with the EU is estimated at around €750 million in 2003, with industrial products representing the bulk of EC/Albania bilateral trade. Foreign exchange reserves reached the equivalent of four months of imports, a figure in line with those registered in previous years.

At the end of 2003, the **external debt** reached about 23% of GDP. This debt level can be considered as relatively low by international standards and in comparison with other Western Balkan countries. The debt service reached the equivalent of 5.5% of exports of goods and services, compared to 6.4% in 2002.

**As regards relations with IFIs**, in June 2002, the *International Monetary Fund (IMF)* approved a new 3-year programme covering the period June 2002-June 2005 and supported by a Poverty Reduction and Growth Facility (PRGF) arrangement for a total of Special Drawing Rights (SDR) 28 million (some €40 million). In April 2003, in the context of second review discussions – the first review had been successfully completed in January 2003–, the IMF staff mission agreed with the authorities that the second year of the programme (June 2003-June 2004) be

given a strong focus on strengthening governance and the integrity and competence of public institutions, particularly the tax administrations. Other main priorities for the second year of the programme are fiscal consolidation, the improvement of the business environment, the implementation of the energy sector action plan and the strengthening of the financial sector. The second review was successfully completed in July. In October 2003, the Albanian government concluded negotiations with the IMF on the economic and financial framework for 2004 in respect of the PRGF arrangement. In January 2004, the IMF Board completed the third review under the programme, despite the non-observance of a structural reform criterion relating to the regularisation of inter-enterprises arrears.

In June 2002, the *World Bank (WB)* adopted its new Country Assistance Strategy (CAS) for Albania, which focuses on reducing poverty by supporting the country's National Strategy for Socio-Economic Development (NSSD). To this end, the Bank is supporting the government to improve governance and strengthen institutions, promote sustainable private sector growth, support the restructuring of the energy sector and the upgrading of basic infrastructures, and foster human development. Four projects (three sectoral credits and one Poverty Reduction Support Credit) for a global amount of USD 61 million (about €50 million) have been approved under the framework of the new CAS.

The strategy of the *European Bank for Reconstruction and Development (EBRD)* for Albania is to focus its action on private sector development and support to SMEs, participation in strategic privatisations, more particularly in financial and telecommunications sectors, and infrastructure financing and development, especially in the energy and transport sectors. By the end of 2003, the EBRD had provided Albania with financing to the value of over €155 million.

### 3.2. Existence of a Free Market Economy and Structural Reforms

*Progress was achieved in 2003 with regard to market-oriented structural reforms. The privatisation of the largest Albanian bank, the “Savings Bank”, together with the steps taken to privatise the main Albanian insurance company, “INSIG”, represent considerable progress towards the completion of the privatisation of the financial sector. Efforts need now to continue in order to complete the restructuring and privatisation of the remaining state owned companies. Some steps have also been taken in relation to the banking system. Although the Albanian economy remains largely cash-driven and the majority of transfers and payments are still carried out outside the banking system, efforts are being made to promote the use of it.*

*The business environment continues nevertheless to be difficult, mainly due to still prevailing energy shortages, weak infrastructure, widespread corruption, inadequate land/real estate market, limited administrative capacity and insufficient legal security for companies. This situation adversely affects investment and the normal operation of a free market economy.*

**Enterprise reform – Enterprise restructuring and privatisation.** Whereas privatisation of SMEs has been completed, large-scale privatisation has suffered delays over recent years. Political uncertainty and a low level of interest from strategic investors have contributed to these delays. In this context, the privatisation of the Savings Bank, a priority identified in the previous SAP report, constitutes a major step forward (see “*Financial Sector reform*” below).

Enterprise privatisation/restructuring essentially concerns large utilities. Albania’s overall policy is, first, to restructure and, only thereafter, to privatise state-owned companies. The electricity company KESH is still in the restructuring phase, a first step having been achieved with the split of the company into three entities responsible for distribution, generation and transmission. The situation is somewhat more advanced in the oil sector, as the privatisation process of Albpetrol (production), Armo (refinery) and Servcom (distribution) has already started. No significant progress has been made concerning Albtelecom, the telecommunications company, whose

privatisation has to be postponed given the lack of interest from international potential bidders. In this context, the state has recently issued a mobile license to a company fully owned by Albtelecom. This should make this firm more attractive for prospective buyers. On the other hand, it should be noted that the company is currently still benefiting from a monopoly on international connections –including on GSM connections-, an advantage that Albtelecom is committed to abandon in the coming months to be in line with its WTO obligations.

**Financial sector reform.** As a consequence of the failure to privatise the Savings Bank in 2002, the Albanian authorities decided, in consultation with the International Financial Institutions, to streamline and strengthen the bank in preparation for a second privatisation attempt. Reforms included the transfer of the Savings Bank's pension functions to Albapost, further efforts to move the bank's fiscal functions to other institutions, a reduction in quantity coinciding with an improvement in quality of staff, as well as a further consolidation of its rural offices so as to ensure the provision of basic banking services in remote areas after the bank's privatisation. The second privatisation attempt was successful with an Austrian Bank purchasing 100% of the Savings Bank's shares in January 2004. The Albanian banking sector now consists of two joint-venture banks, 12 foreign-owned private banks and one domestic private bank. However, given the dominant position of the Savings Bank - it accounts for about 60% of bank's deposits and 80% of the treasury bills' market -, competition in the Albanian banking sector remains very limited.

The first stage of INSIG's privatisation process was carried out within the reporting period. In October 2003, 39% of the Albania's insurance company INSIG was officially transferred to the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). IFC and EBRD will have INSIG under their supervision for a transitional period of 1-2 years, thus giving way to the attraction of strategic investors.

Confidence in the banking sector appears to have increased with local and foreign deposits both growing in 2003. Nevertheless, the financial sector still needs to strengthen its structures, including banking supervision, and to play a more central role in the country's economic development (especially by being more active in providing credits to productive units). The recent privatisation of the Savings Bank is also expected to have a positive impact. Efforts have been made to reduce the volume of cash transactions and to promote the use of the banking sector, notably through steps towards the payment of civil servants' salaries through the banks, and the encouragement to pay electricity and telephone bills via the banking sector. With regard to the Tirana Stock Exchange, the definitive license to operate in the country's capital market has been issued. The Tirana Stock Exchange will serve as a secondary market of government's treasury bills and obligations, and for the listing and trading of shares and obligations of Albanian companies.

Some steps have been carried out in 2003 in order to improve the **business environment and business climate** in Albania. After having been established on 4 April 2002, the Albanian Foreign Investment Agency (ANIH) became operational, along with two other governmental agencies, the Agency for SMEs Support and the Agency for Promotion of Exports (APE). These governmental agencies are expected to provide facilities for investors, businessmen and credit information, as well as to promote business interests and to find distribution markets. They should also facilitate dialogue between the business community and the administration. Nevertheless, the persistent deficiencies of the Albanian judiciary, customs, taxation and other business-related administrations, as well as the problem of corruption and the so far unresolved issue of land ownership, continue preventing a significant increase in investments and adversely affect economic prospects. Energy shortages and poor infrastructure, growing employment costs and large informal economy also undermine investment and business development. Key legislation such as the commercial law also remains to be improved, as already identified in the

2003 SAP report. An important step in this context was the adoption in June 2003 of a detailed Action Plan aiming at removing administrative barriers to investment. This Action Plan identifies existing barriers in the areas of customs and tax administrations, land ownership and construction, the appeal system and the provision of licenses for the non-food sector, and it includes recommendations and time-bound actions to be taken to tackle the identified barriers.

### 3.3. Management of Public Finances

*In 2003, performance in terms of revenue collection improved compared to the previous year, but still remained below target. Further reforms are needed, notably through the adequate implementation of the legal framework and a more effective fight against fiscal fraud.*

*The combination of the Medium Term Expenditure Framework (MTEF) and the National Strategy for Social and Economic Development (NSSED) provides a good framework for an improved public expenditure management. However, a closer link between these instruments would be desirable. Further progress is also needed as regards budgeting procedures and the strengthening of monitoring functions in line ministries.*

*Some progress was made in the area of public finance control, notably as a result of the entering into force in April of the Law on Internal Audit. Nonetheless, an overall Public Internal Financial Control (PIFC) strategy, strengthened financial control structures and a better implementation of existing financial control-related legislation remain necessary.*

Performance in terms of **revenue generation** continued to be limited in 2003, despite a relative improvement as compared to 2002. The ratio of tax revenues to GDP, estimated at 20.1%, remains amongst the lowest in Europe. Although the Albanian authorities have revised their strategy concerning revenues, significant results have yet to be achieved. The revised strategy remains focused on improving revenue collection, and on increasing the tax base over the medium-term. These measures include an improvement in the collection of social security premiums – a function which will be progressively transferred to the General Directorate of Taxation, according to the law adopted by Parliament in September 2003 - as well as the gradual introduction of some local taxes to support decentralisation. Implementation of the new law on taxation of agricultural land commenced in 2003, but has reportedly been subject to difficulties linked to the land ownership issue. Also, a new excise tax was introduced in July. These achievements partly covered the recommendations of the previous SAP report. In this context, it should be noted that the duty-free shops at land borders were effectively closed in early 2003, as recommended.

A strengthening of the tax administration remains also at the core of the fiscal strategy, as well as the fight against tax evasion, fraud and corruption, and the improvement of the VAT system. It is important that Albania ensures that tax legislation is properly and fairly implemented, and that it prevents any type of harassment and/or discriminatory treatment between companies. The improvement of communication with tax payers, the simplification of tax-payment procedures and the development of a functioning system which guarantees the re-payment of taxes collected in excess would also contribute to increase tax collection and enhance confidence between tax payers and the tax administration.

Regarding **public expenditure**, key challenges concern (i) improving the usefulness, quality, and timeliness of information upon which budget decisions are made and (ii) enhancing budget transparency and accountability mechanisms, including audit. To meet these challenges, the authorities have continued to make the Medium-Term Expenditure Framework (MTEF) the centre-piece of the budgetary process to prioritize expenditures more efficiently and to strengthen the links between policy objectives and budget planning. A closer link between the METF and the NSSED (National Strategy for Social and Economic Development, the official name of the Albanian PRSP) would however be desirable. This could be achieved through the

development of a comprehensive socio-economic strategy, encompassing the METF and the NSSD, to which all financial assistance could also then be linked.

As regards **financial control and audit**, some progress has been made during 2003. A positive development took place in April 2003 through the entry into force of the Law on Public Sector Internal Audit, in line with the recommendations of the previous SAP report. Also, some secondary legislation has already been drafted and adopted. The rapid and proper implementation of the new legal framework is now crucial, as it should strengthen financial management and support fight against corruption. However, Albania needs to clarify and further develop its Public Internal Financial Control (PIFC) concepts. To do so, a comprehensive PIFC Policy Strategy Paper is necessary. This paper would help define a performing PIFC system and would clarify the various functions within the PIFC system and how these functions interact. A preparatory study was made in 2003, but a real strategy has not yet been developed, as referred to in the previous SAP report.

The Supreme Audit Institution (SAI, named High State Control in the Constitution) is responsible for external audit. The SAI carries out audits according to an Annual Audit Programme adopted by the Parliament. It regularly publishes its findings, and issues decisions and recommendations. The Institution seems to be performing rather well. Nevertheless, it has a strong potential for further development and its impact needs to be further enhanced. Although some improvements have been noticed as compared with the previous reporting period, SAI decisions and recommendations are not sufficiently taken into account by the relevant state bodies. This issue could be addressed through the establishment of a judicial process which ensures the implementation of its recommendations and the follow up of its findings, through enhanced co-operation between the SAI and the public prosecution, and through an efficient case management.

## 4. IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS

### 4.1. General Evaluation

*On 31 January 2003, negotiations for a Stabilisation and Association Agreement (SAA) were officially opened. Nine negotiating rounds have been held, and progress has been made in discussing the text of the future SAA. However, actual implementation of reforms has been insufficient to properly address many of the shortcomings identified in the 2001 High Level Steering Group report, subsequent Stabilisation and Association Process (SAP) reports, and in the framework of the frequent dialogue between the EC and Albania. Only a limited number of the recommendations of the 2003 SAP report and of the various Consultative Task Force meetings (CTFs) have been fully implemented. Albania does not yet offer a sufficient guarantee that it will be capable of correctly implementing the future Stabilisation and Association Agreement (SAA). Prior to the conclusion of SAA negotiations, Albania should demonstrate that it has made significant progress in terms of reform, and that it is in the position to implement the SAA provisions that it has negotiated. More determination towards delivering concrete results in the various priority areas remains necessary.*

#### 4.1.1. Current position

On 31 January 2003, **negotiations for a Stabilisation and Association Agreement (SAA)** were officially opened by the President of the European Commission, Romano Prodi. Nine negotiating rounds have been held so far. These rounds have allowed discussions on most of the issues covered by the SAA. However, the reforms undertaken by Albania are insufficient to guarantee proper implementation of an SAA. Albania should accelerate the pace of its reforms in order to

ensure that, by the end of the negotiating process, it is in a position to properly implement the Agreement.

Taking into account the realities of the country, an outstanding political commitment and determination is necessary in order to address the many pending issues. This commitment has not been sufficiently present. The political climate, encompassing frequent quarrels for power within the ruling party, heated rhetoric, and conflicts between the ruling party and the opposition, has not allowed for efficient reform implementation. In order for Albania to make meaningful progress in the SAP, major and urgent reforms are necessary in the following areas in particular: 1) fighting organised crime, trafficking and corruption; 2) strengthening the judicial system and public administration; 3) ensuring the proper functioning of democracy (including elections) and preserving the political stability necessary for speedy reform implementation; 4) improvement in terms of human and minority rights; 5) further formalisation and reform of the economy, as well as increased fiscal sustainability through more efficient customs and tax administrations and a strengthened legal framework.

On a more positive note, after three successful rounds of negotiations, a '**Community Readmission Agreement on persons residing without authorisation**' was initialled in December 2003. Albania should now take all necessary steps to complete its internal procedures for the signature and ratification of the agreement as soon as possible in 2004.

#### **4.1.2. *General assessment of administrative capacity***

Overall, the Albanian public administration needs further strengthening to guarantee adequate implementation of the central instruments of the Stabilisation and Association Process, and in particular any future SAA. Equipment and infrastructure are limited, with staff generally insufficient, not always properly trained, and subject to too-high a turnover. SAA negotiations are bringing added exposure to EU issues and making deficiencies more apparent.

Nonetheless, some steps have been taken over the past months in order to reinforce the structures directly involved in EU matters. In particular, the Department for European Integration became a Ministry in early 2004, and it is expected that this new ministry will be progressively strengthened. This is crucial, as the Ministry has to carry out an increasingly demanding mission which includes co-ordination with various line ministries and related institutions in different areas of SAA negotiations, as well as co-ordination with line ministries and the international community regarding financial assistance.

In order to prepare adequately for the implementation of any future SAA, Albania should, in addition to general reform of the public administration, ensure rapid and substantial strengthening of those state bodies that will be directly involved in implementing key SAA provisions. Special attention should be devoted to trade and internal market-related areas such as customs; phyto-sanitary and veterinary services; standards and certification; public procurement; competition and state aids, consumer protection, and intellectual industrial and commercial property rights. The justice and home affairs sector also requires particular attention. Furthermore, continued enhancement of Albanian administrative capacity in order to ensure adequate implementation of EC financial assistance remains a priority. Proper use of EC financial support would contribute to both reform and the overall progress of the country, and would be a clear indication that Albania was making progress in terms of increased administrative capacity.

#### **4.1.3. *Impact of the prospect of an SAA on reform***

The prospect of a Stabilisation and Association Agreement continues to provide incentive for reforms. However, these are progressing at too a slow a pace. As stressed on every appropriate occasion, the EU deems as indispensable that sound reforms be implemented by Albania before

concluding SAA negotiations. Albania should create as soon as possible an environment which guarantees that the agreement it is negotiating will be properly implemented. This involves not only sufficient administrative capacity, but also the necessary legal security. Reforms need to be both courageous and significant, in order for Albania to effectively tackle the difficult problems facing it, and to ensure that the country's progress is clear and unambiguous.

## 4.2. Internal Market and Trade

*Albania's legal framework regarding the movement of goods, services and capital, as well as that related to establishment, is in theory relatively open and non-discriminatory. However, the limitations of the administration, as well as the serious problem of corruption, continue to have an adverse effect on the actual implementation of this legislation. This also affects trade relations. Discretionary/discriminatory implementation of laws is reportedly frequent, for example in the field of corporate taxation. The lack of guarantees as regards fair implementation of procedures is an issue which should be urgently addressed.*

*Some progress has been made by Albania in improving its legislation and becoming part of international conventions in internal-market related areas. However, administrative capacity remains, at this stage, too weak to ensure the proper enforcement of legislation and therefore Albania's ability to comply with SAA requirements. Particular efforts should be made in the areas of customs and public procurement.*

### 4.2.1. Movement of goods

Albania's **trade liberalisation** in terms of movement of goods is significant. According to statements of the Albanian authorities, there are no quantitative restrictions on imports and exports. Albania has accepted ambitious tariff cutting commitments during its WTO accession negotiations and is now proceeding to further trade liberalisation following the entry into force of several bilateral free trade agreements. However, Albania does not seem to be in the position to respect several of its 2004 WTO goods schedule commitments. This appears to be due to budgetary impact considerations, as well as because of the adverse effect that the schedule's implementation would have on recently created –and thus still fragile– companies. Albania is currently in the process of notifying this situation to WTO Members, including the EC, in line with GATT obligations.

The EU is Albania's main commercial partner, representing about 75% of Albania's total imports and around 90% of its total exports. Albania's trade deficit with the EU is expected to be around € 750 million for 2003. On a sectoral level, the EU primarily imports manufactured products from Albania. Textiles account for approximately 29% of import trade, and agricultural products for roughly 12%. The EU's main exports to Albania are machinery products and other manufactured products. Agricultural products account for nearly 20% of total EU exports. To date, and despite the relative surge in exports (+11% as compared with 2002), Albania has been so far unable to take real advantage of the autonomous trade preferences granted by the EU. Developments such as the implementation of Albania's export promotion strategy and the establishment of an export promotion agency have both been aimed at increasing Albania's export possibilities. However, substantial and co-ordinated progress in a number of areas such as overall product quality, quality control and certification, implementation of EU standards, veterinary and phyto-sanitary rules, development of trade channels, etc. will be necessary before Albania is able to achieve significant results in terms of exports.

In the field of **standards and certification**, some progress can be reported. Albania has adopted 42% of European Standards, therefore meeting the target fixed in both the working programme of the General Directorate for Standardisation (GDS) and in the governmental action plan. In August the law on "Conformity assessment" was ratified. This law establishes the principle of

conformity assessment in regulated areas for the purpose of ensuring unified procedures in the conformity assessment of products, processes and services which hold potential risks to human health, public safety, the environment, and other public interests. However, an important element of the reform is still pending, i.e. the approval of the draft decree on the organisation and functioning of the Accreditation Directorate, which will split the function of accreditation from those of standardisation and certification. The adoption of this decree is also expected to result in a substantial increase in the number of people dealing with accreditation within the Ministry of Economy (15 people). In October 2003, the GDS became a full member of the European Organisation of Testing and Certification (EOTC). Furthermore, limited progress has been made in the field of Metrology and Calibration. For example, the technical control of electricity meters has been secured, regional offices have been equipped, and staffs have been trained in relation to implementation of the EC directive on taximeters.

The field of **consumer protection** saw both a new law adopted in September 2003 and a Consumer Protection Department (CPD) established within the Ministry of Economy. The Department currently comprises of a staff of four, and is focused on developing the secondary legislation necessary to implement the new law. Albania needs to continue its efforts in order to ensure that the implementing legislation is rapidly put in place, that co-operation with civil society and consumer associations increases substantially, that a market surveillance system is set up and that the Department is actually entitled to take legal action in cases of consumer rights violations. Continued efforts are necessary in order progressively to develop a culture in which consumer interests are actually protected.

#### **4.2.2. *Movement of persons, services and rights of establishment***

Albania has made considerable efforts during WTO accession negotiations to open its economy to foreign companies and investments. Liberalisation is being progressively extended to **services**, including key areas such as the financial and telecommunications sectors. However, full liberalisation of Albania's telecommunication sector, foreseen to take place in 2003, has been delayed until 1 January 2005.

Concerning **movement of persons**, Albanian migratory flows towards Europe and the US have been reduced, although they have not disappeared. Emigration is mainly the result of Albania's current socio-economic situation and the general lack of trust in the possibilities that the country can offer. The frequently tense political climate allied to the non-constructive attitude of political parties continues adversely to affect the populations' expectations for a better future. The brain-drain experienced over the last decade affects Albania's potential for development, and the return of migrants who could potentially contribute their know-how to the country's development is limited. Although there is little immigration into the country, Albania still needs to develop an appropriate legal framework in this area. Current Albanian legislation does not offer the guarantee that the rights of spouses and children of potential EU workers legally working in Albania will be respected in accordance with usual SAA requirements. On 1 January 2003, the European Social Charter (revised, 1996) entered into force in Albania.

Albanian legislation is relatively open in terms of **establishment**. EU firms can already establish themselves following similar procedures to those required for Albanian companies. According to the Albanian authorities, no discrimination exists between foreign and Albanian firms. This open approach also seems to apply to sensitive sectors such as finance and transport. The Albanian Law on Foreign Investment is particularly liberal, and offers, in theory, considerable guarantees to all foreigners (either physical or judicial persons) willing to engage in an economic activity in Albania. Restrictions only affect some regulated professions (doctors, dentists). However, this liberal approach is seriously undermined by the lack of proper implementation of legislation and by unclear procedures. Investors operating in Albania claim that far too many decisions regarding establishment remain dependent on personal contacts at what they call "the

appropriate level". This approach can easily lead to de-facto discrimination and corrupt practices, and has an adverse effect on potential investment.

Foreigners can purchase **real estate** and private non-agricultural land in order to carry out economic activity. However, state owned non-agricultural land can only be purchased if the investment planned is three times the price of the land. Foreigners cannot purchase agricultural land; such land can be rented for a maximum period of 99 years.

#### **4.2.3. *Movement of capital***

Albania is progressively introducing legislation for the liberalisation of capital movement. The Albanian legal framework already provides for protection of investments and for the possibility of repatriation of both investments and profits. Inward capital transfer has already been fully liberalised. According to recent positions expressed by the Albanian authorities, outward capital transfers should be fully liberalised by 2010. Albania has not yet accepted Article VIII status under the IMF Agreement due to outstanding debit balances with a number of countries. However rescheduling agreements are progressively being negotiated with these countries. On the other hand, the Albanian authorities claim that there are no restrictions for either payments or transfers on the current account of the balance of payments. Continued reform of the Albanian financial sector, as well as improvement of monetary policy instruments and banking supervision, remain crucial to Albania's progress towards complete liberalisation of current payments and movement of capital.

#### **4.2.4. *Customs***

With constant encouragement from the EU Customs Assistance Mission to Albania (CAM-A) and based on the 2003 Action Plan for this sector, some steps have been taken by the Albanian authorities to enhance the Albanian Customs Service (ACS). Regional management is being strengthened, and new sections relating to the origin of goods and post clearance control have been established. A special Operational Department for the purpose of fighting customs fraud has also been set up. The ACS has drafted amendments to the Customs Code's Implementing Provisions aimed at addressing the crucial problem of human resource management and at consolidating personnel stability and staff turnover. The practice of escorting the transit of high risk revenue items has been terminated, and practices for the valuation of goods have improved. As regards the management information system and trade statistics, the implementation of the ASYCUDA system has seen further progress. Implementation of ASYCUDA in Tirana's Customs House and at the Port of Durrës (together covering about 60 % of trade transactions) is planned for the first months of 2004, and will be a milestone for the system.

In spite of both the above-mentioned steps and EU efforts, ACS reform and modernisation efforts have been proceeding too slowly, and various recommendations included in the 2003 SAP report for this sector have not been properly implemented. The principal reason for this may be attributed to the instability of both ACS management and key personnel. Despite the warnings of international experts, many staff changes have occurred without proper justification over the last 18 months. During this period, six general directors have been in charge of running customs administration, and many changes have occurred at lower levels. This instability has caused a lack of overall reform strategy and a tendency to focus on one single item, namely achievement of the revenue plan. The efficiency of customs officers at the main Albanian border-crossing points has remained limited, and smuggling and trafficking continues to be a serious problem. Cases of discriminatory implementation of customs legislation have also been reported.

Whilst ensuring adequate revenue collection remains a key task of the customs administration (especially in a country like Albania, with its limited budgetary resources), it must nevertheless be achieved in full accordance with the law. At the end of 2003, in line with CAM-A requirements, a Ministerial Directive ordered the elimination of all odd practices (i.e. the pre-

declaration of goods) which had been used by the ACS to meet the monthly revenue plan. Albania should realise that the best method of increasing revenue collection is to ensure adequate application of the law and to fight with determination against fraud and smuggling. In terms of revenue collection, the Customs administration collected around €400 million in 2003, which amounts to 95 % of the target for the period.

Albania has taken some steps aimed at addressing the issue of corruption and other criminal activities within the customs service. The number of disciplinary measures has been considerable. However, substantially enhanced efforts in this area remain necessary in order to ensure the integrity of the ACS. In particular, criminal activities should be duly prosecuted.

The Albanian customs administration, with the full support of the Government, should not only be focussed on revenue collection, but should also pay further attention to areas like organized crime, drugs, smuggling and money laundering. Furthermore, it should ensure stability and adequate human resource management, accelerate reforms, and prepare for proper implementation of SAA requirements, notably through a significant strengthening of trade-related departments (in particular that of origin) and constant improvement in the implementation of customs procedures, including in the fields of valuation, transit and customs warehouses. The Albanian authorities should ensure efficient use of the assistance offered by the EC in this crucial area.

#### **4.2.5. *Competition and state aids***

A new **competition** law was adopted in the summer of 2003. This law foresees the establishment of an independent Competition Authority, in line with EC requirements. The law grants Competition Authorities the right to initiate investigative proceedings on their own initiative. It also foresees mechanisms of cooperation between this authority, and other public and local administration bodies, regulatory entities, courts, and the relevant authorities of other countries. However, the implementing regulation has not yet been adopted, despite the law's requirement that this be done before the end of 2003. Delays have mainly been due to lack of political agreement regarding the composition of the Competition Commission, which was a pre-requisite for the adoption of the implementing regulation. Now that this issue has been resolved and that the Commission has been established, the Albanian authorities should secure the enforcement of the law through rapid adoption of the necessary implementing legislation. Albania should also continue to work towards the establishment of a sufficiently resourced independent competition authority.

In the meantime, the Department for Competition within the Ministry of Economy, which now comprises nine members, has been actively contributing to improving the regulatory framework and to addressing several complaints related to unfair competition (7 cases) and antitrust (5 cases).

In the area of **state aids**, the structure created within the Ministry of Economy remains inadequately staffed with only two experts. A study has been prepared for the development of a legal framework in this field, and preliminary work to prepare both the inventory of state aid schemes applied in Albania and to calculate GDP according to NUTS II level has started. All these initiatives should be continued so as to create transparency by establishing a comprehensive inventory and reporting system in relation to all aid measures in force, based on the EU State aid definition. A fundamental step remains the adoption of an appropriate legal framework in the field of State aids. While all these preliminary steps are to be welcomed, it is nonetheless felt that the development of a sound regime for the control of State aids will require a considerable amount of time, effort and resources.

The situation in Albania - where the grey economy remains significant - continues to prevent fair competition between companies belonging to the formal and the "informal" economy. This has a

seriously detrimental impact on companies' willingness to invest and legally operate in Albania. In this context, Albania also needs to strengthen competition advocacy, i.e. a horizontal policy promoting competition policy through the fostering of liberalisation, the improvement of public procurement practices, the guarantee of a pro-competitive approach to privatisation, and overall strengthening of the rule of law.

#### **4.2.6. *Public procurement***

Albania has continued to strengthen its still limited administrative capacity in this area. The Public Procurement Agency (PPA) has been restructured, and staff numbers have increased from 20 to 25. Nonetheless, these numbers still remain insufficient. Staff have however been provided with basic equipment and training. Legislation aimed at improving the legal framework of public procurement was adopted in May and August 2003. New standard procurement and bidding forms have also been approved. A new website on public procurement operations, which includes information in Albanian and English relating to tenders, and procurement rules and procedures, is expected to be operational within the first quarter of 2004. While these improvements represent steps in the right direction, important issues still need to be addressed. For example, further efforts are necessary in order to approximate Albanian legislation to EU standards, properly to train procurement units within the relevant line Ministries, and to ensure adequate implementation of tendering procedures. In addition, review mechanisms for public procurement cases should be improved, as well as appeal procedures for companies participating in public procurement. It is crucial that enforcement of all relevant legislation be ensured from the outset so as to not only guarantee timely and smooth procurement, but also to avoid the irregularities and complaints which lead to delays and increased costs.

According to the Albanian authorities, the PPA cancelled procurement procedures in 28 cases during 2003, and in 5 of these, monetary fines were applied as a result of administrative infringements. Disciplinary measures were taken against 43 persons belonging to tender evaluation committees. However, these measures seem insufficient in terms of preventing the serious problems which continue to occur regularly during tendering procedures. Reports of the Albanian State Audit Institution still include a considerable number of cases in which irregularities have been identified during public procurement operations. These irregularities lead to frequent complaints. However these do not always get appropriately treated due to persisting institutional deficiencies. The effective investigation and criminal prosecution of procurement-related offences remains limited.

Albania still needs seriously to step up its efforts in this area. In particular, Albania should continue to strengthen its public procurement-related structures. Further steps should be taken in order to promote a "public procurement culture" based on the principles of transparency and fair competition. In addition, radical measures aimed at preventing irregularities and prosecuting fraud and corruption at all levels should be taken. This is particularly pertinent from the perspective of a future SAA, where Albania would need to ensure the adequate and fair access of EU companies to public procurement operations.

#### **4.2.7. *Intellectual, industrial and commercial property rights (IPR)***

Albania has been a member of the World Intellectual Property Organisation (WIPO) since 1992, and has already signed a considerable number of international conventions in the field of copyright and related rights. Co-operation between Albania and the European Patents Office (EPO) is ongoing, and their current co-operation agreement has been extended until January 2005. In the framework of its accession to the WIPO, Albania has undertaken to fully implement TRIPS and, as a result, copyright legislation in Albania has been amended to meet these TRIPS requirements.

Some progress has been observed in this area over the last twelve months. Albania has ratified a number of important international agreements and conventions in this field, most notably the Hague Agreement Concerning the International Deposit of Industrial Design, the Nice Agreement Concerning the International Classification of Goods and Services, the Madrid Protocol on the International Registration of Trademarks, and the Budapest Treaty on International Recognition of the Deposit of Micro-organisms. Adherence to the Geneva Act on Industrial Design, to the Strasbourg Agreement on International Patent Classification and to the International Convention for the Protection of New Varieties of Plants (UPOV Geneva Act, 1991) is planned for 2004. A new law on industrial property is also expected to be adopted during 2004. This law should help both further implementation of TRIPS commitments and further alignment to the EU *acquis*. Additionally, there have been further initiatives regarding public awareness, and third parties, including law enforcement bodies, have shown a growing interest in the area. A legal guidebook has also been published for use by economic operators, Chambers of Commerce, courts, customs administrations etc. There has been a relative (although still very limited in absolute terms) increase in the number of cases brought to court (from 4 in 2002 to 9 in 2003). The number of Albanian operators applying for registration of marks has grown five times as compared to last year (from around 100 in 2002 to 500 in 2003). Although such statistics should be treated cautiously, they can nevertheless be viewed as an initial indication of improved awareness amongst the business community. They also show a potentially growing confidence on the part of economic operators in the area, as well as a willingness to engage in proactive behaviour.

In the field of copyright, the adoption of a new law on Audiovisual Protection has been an important event. Under this law, several broadcasters have been fined because of non-respect of copyrights. The law foresees closure in cases of repetitive infringements. Nevertheless, significant efforts in this area are still necessary in order to ensure adequate general protection of copyright, in particular the adoption of adequate legislation and the establishment of a strong institution in charge of its implementation.

Albania's main challenge remains the implementation and enforcement of the overall legal framework in this area. Despite progress, the business community and law enforcement bodies, including the judiciary, are not yet sufficiently acquainted with IPR issues. Whilst the signing of a Memorandum of Understanding between the Albanian institutions involved in the protection of IPR is to be welcomed, enforcement should be further improved through a more complete and better co-ordinated legal framework, as well as through the enhanced capacity of law enforcement bodies involved in the fight against piracy and counterfeiting.

### 4.3. Sectoral Policies

*Efforts to restructure key sectors of the Albanian economy such as industry, transport, environment, agriculture, energy and telecommunications should be further enhanced and maintained over the medium/long term. Albanian industry remains generally outdated and the SMEs sector, although developing, needs to consolidate and grow further on a more sustainable basis. While some steps have been taken to improve air traffic and airport security, road and railway infrastructure remain outdated. In the field of water management, strategies have been prepared; they need now to be implemented. In relation to the environment, a tangible improvement in the general situation was hardly noticeable, despite some efforts in adopting and enforcing legislation, including sanctions for polluters. Progress is being made in addressing the ongoing problems of the energy sector, but it will still take some time for Albania to stabilise the situation in this area.*

#### 4.3.1. *Industry and SME's*

The Albanian **industrial sector** remains weak. Its contribution to overall GDP growth in 2003 is expected to be similar to that of 2002, i.e. around 12% - 13 %. Efforts to restructure existing industries have been limited. Therefore, industry remains generally obsolete, non-viable, and unable to compete with European industry. Albania needs to rapidly develop and implement a strategy in order to create a basis for fresh industrial investment, and to enable it to restructure those existing industries in which viable operations can be foreseen.

According to official statistics, there were 56,490 **small and medium size enterprises (SMEs) in Albania** in 2003. 82.5 % of these enterprises were reported to employ only one person. Almost 52% of SMEs are operating in the trade sector where barriers to entry and requirements for investment capital are low. Only 10% are operating in the industrial sector. 15% of SMEs continue to operate under state management. Indeed these state managed SME's actually account for 41% of the labour force employed by SMEs. Only 0.2% of SMEs employ more than 100 workers. There has been almost continuous growth in the number of SMEs operating in the country since the beginning of the transition, and these enterprises have subsequently become an important part of the Albanian economy. In July 2003, the European Charter for Small Enterprise was signed. This sent the positive signal that there exists in Albania an increased interest in SME development. The bankruptcy procedure was modernised in May 2003 and a new SME law was also adopted in October 2003. Furthermore, a new regulatory framework was approved in early 2003 in respect of the operations and budget of the SMEs Development and Promotional Agency, which itself was established in October 2002. The Agency is now ready to start working. However, in order to encourage long-term development in this promising sector, Albania needs to further improve the institutional, legal and fiscal environment in which its SMEs carry out their activities. The country should also pay more attention to improving SME access to credit facilities.

#### 4.3.2. *Agriculture*

The agriculture sector accounted for about 28% of GDP in 2003. Over half of the Albanian population lives and works in rural areas. Although cultivated areas have diminished since 1998, production is estimated to have increased by about 2% in 2003. Most recent growth has been in the production of vegetables, milk and eggs.

There has been increased public investment in irrigation and drainage systems, and increased private investment in greenhouses, vineyards and fruit trees. However, agricultural wages remain very low compared with those of the unskilled urban worker. As a result, not only is land being left uncultivated, but also most of the young labour force is moving away from agriculture.

Over the period 2002-2003 there was growth in specific sectors. Agro-processing improved by about 6% in 2003, and the banking sector increased its share of investments in this sector to about 22%. Growth was particularly important in sub-sectors such as the bread and milling industry, and dairy and meat processing, which accounted for over 75% of the production value. It is expected that the value of production will grow steadily since investments are also being made in new sub-sectors such as beer and non-alcoholic drinks.

Growth in the agricultural sector continues to be a Government priority in the medium term. However, this goal is hindered by poor infrastructure and marketing networks. In the long term, the land market may not be able to bring about economies of scale. To improve the situation, Albania needs to set up a system to enable its farmers have access to credit, to improve infrastructure and energy supply, to solve the issue of land ownership, and to provide greater training and knowledge transfer to farmers.

Many laws and regulations have been enacted in recent years, several of which follow the respective EC Directives, but unfortunately they are rarely enforced. The Government should

pay more attention to law enforcement in order to ensure greater progress, particularly in the area of animal health, phyto-sanitary services and food safety so that Albanian products may qualify for export. In this context, it is important that any new legislation on genetically modified organisms (GMOs) takes due account of the EC approach and initiatives in this sensitive area.

#### **4.3.3. Environment**

Albanian environmental problems remain acute. Little has been done to address the toxic hotspots identified in Durres and Flora, and to tackle the problems of radioactive waste in Tirana and Fier. According to the Albanian Public Health and Environmental institute, Albania's urban areas have high levels of air pollution due to uncontrolled development. In these areas, dust levels exceed the standards of the World Health Organisation (WHO). Pollution from the Ballsh Oil Refinery as well as nearby oil wells is considered to be unacceptably high. There are hydrocarbon emissions in the air and soil, and water has been greatly affected. A persistent discharge of oil into the Gjanica River is affecting bio diversity in both the river and the Adriatic sea, as well as human health in general. Further pollution is being caused by industries using copper and chromium. Albania is also experiencing soil erosion due to overgrazing and illegal logging in hilly and mountain areas in particular.

Some secondary legislation has been adopted in areas such as biodiversity, environmental management of polluted waters, and conservation of trans-boundary lakes. According to the Albanian authorities, eco-taxes are now being collected on a number of products (carbon, plastic packaging, etc.), in accordance with the legislation adopted at the end of 2002. However, overall implementation of legislation remains weak. For example, it is crucial that environment impact assessment legislation be fully and properly implemented, independently of potential conflict of interests. Albania has ratified the UN's Aarhus Convention, but is not yet in a position to implement it.

The central institution responsible for environmental issues in Albania is the Ministry of Environment. The five national institutions responsible for environmental matters continue to have problems in respect of coordination and monitoring. Methodological standards for data collection, management, and scientific analysis do not exist, and no central electronic database has been created. On a more positive note, information provided by Albania points out that an environmental information centre has been set up, that a website on environmental issues has been created, that an environmental bulletin is being published and that steps have been taken to enhance protection of the Ohrid Lake. Some action appears also to have been taken as regards inspections and sanctions. The Ministry of Environment has reported that, during the first half of 2003, 400 inspections were carried out; 47 entities were fined, 13 suspended and 7 closed down. The Butrint National Park has continued to be a good example of how proper understanding of the environmental issues help to preserve nature and cultural heritage, and contribute to overall development. Regional dialogue has also increased, notably in the framework of the Regional Environment Reconstruction Programme (REReP). Nonetheless, the present environmental situation remains grave and much more needs to be done if Albania wishes to prevent its environmental problems from becoming a serious handicap to socio-economic development in the country.

#### **4.3.4. Infrastructure**

Infrastructure in Albania remains poor and will require continued investment over the long term.

As regards **transport**, the main priorities for the Albanian government remain the completion of the East-West (Durres-Varna, through Tirana and Sofia) and North-South (connecting Greece to Montenegro) corridors. In addition to international support, the Albanian Government has continued to allocate funds (about € 40 million within the 2003 budget; about € 50 million planned for 2004) to the transport sector, in particular to support the costs of expropriation for

road construction and maintenance, as well as to finance some roads in the north of the country. Regional co-operation is also being enhanced through the development of the South East Europe Regional Transport Network.

Not much progress has been observed regarding the privatisation of the Durres port, although the improvement of certain port infrastructures such as the reconstruction of quays, the rehabilitation of cranes, and the construction of a new ferry terminal, are being progressively completed. In addition, in order to enhance the safety and security of its maritime transport, Albania has ratified the "SOLAS 74" Convention on maritime safety. Some steps are also being taken to rehabilitate the port of Vlora. As far as Tirana International Airport is concerned, little progress has been made as regards the construction of a new terminal although, according to the Albanian authorities, the company responsible for this operation has recently been selected. On the other hand, some steps have been taken to improve airspace control and to increase security at the airport. In September 2003, a contract was signed for the modernisation of the Tirana-Durres railway, and its connection to the airport. However, this project is awaiting the ratification of the Parliament.

Road safety continues to be problematic. Roads are poor, signalling is deficient and traffic education of drivers and pedestrians is limited. This leads to high indexes of serious road accidents. Although the Albanian authorities have started to tackle this problem, significant efforts will be necessary in the coming years if present trends are to be curbed.

The underlying factors for the sound development of transport infrastructure have not progressed much. The National Transport Master Plan is expected to be completed in 2004. Illegal construction persists along new roads, with serious implications both for road maintenance and road safety. Co-ordination in transport planning policy between the relevant institutional actors should be further increased, and the professional know-how of these institutions, further reinforced. The promotion of overall technical design and construction standards for transport infrastructure has not yet been achieved. Steps appear to have been taken to ensure the tax exoneration of companies involved in the implementation of EC-financed projects, but there are still outstanding claims which need to be settled. The Government should take all necessary measures in order to fully resolve this issue and to prevent new cases.

Regarding the field of **water management and infrastructure**, in 2003 the Council of Ministers have adopted both the National Strategy of Water Supply and Sanitation, as well as the Rural Strategy of Water Supply and Sewerage. However, implementation is still at an early stage and results are not yet visible. Water supply remains inadequate throughout the country although, according to the Albanian authorities, improvements have been made as regards the availability of running water in households (average of 9 hours/day in rural areas; over 12 hours/day in urban areas). Around 80% of the population living in urban areas have access to piped water but, in general, water supply and sanitation systems remain outdated. Water quality is poor, and leakages and illegal connections are frequent. Progress regarding sewage has been limited: only about 40% of the urban population has a sewage connection and sewage treatment continues to be virtually non-existent. De-centralisation and privatisation in the sector are on-going, but they have not yet produced the expected results in terms of quality of service, or maintenance and development of infrastructure.

In the **energy sector**, efforts are continuing to mitigate progressively the impact of the electricity crisis. As a result of a number of factors including 1) better weather conditions leading to a more favourable hydrologic situation, 2) the successful implementation of the 2002-2003 Action Plan (in line with the 2003 SAP recommendations), and 3) the commitment of the Albanian government, as well as bilateral and multilateral donors to rehabilitate the distribution and transmission systems, the situation in 2003 has, in relative terms, improved. This is demonstrated by the fact that there was a 56% increase in the amount of electricity produced as compared with

the previous year. Payment collection has improved from about €57 million in 2000 to about €152 million in 2003. In May, the Parliament enacted new legislation aimed at the reconstruction, liberalisation and integration of Albania into the regional energy market. In June, the Government adopted a long term National Energy Strategy which analyses the current situation and proposes energy policy scenarios for the next twelve years. Based on this strategy, the 2003-2005 Action Plan was adopted. Electricity prices have continued to increase at a rate of 10%-per annum for households and 5% for other consumers. Increases are as a result of attempts –in accordance with Government policy- to bring prices closer to costs.

A number of investments are on going for the rehabilitation of the country's main generation sources, to improve Albania's connections with neighbouring countries and to rebuild the outdated and overloaded transmission and distribution networks. For example, a new 110 kV substation has been constructed in Durres, and both the feasibility study and the environmental impact assessment for the new thermal power plant (TPP) in Vlora appear to have been completed. Works to rehabilitate the TPP in Fier continue. Nonetheless, results as regards the use of alternative energy sources to electricity (for example, LPG), and to promote energy diversification have been limited and efforts need to be further increased.

From a regional perspective, in December 2003 the Albanian National Council for Territorial Management approved the proposed location of the trans-Balkans oil pipeline between Ambo Burgas (Bulgaria)-Vlora (Albania). Albania has signed the 2003 Athens Memorandum of Understanding and is committed to the establishment of a competitive regional energy market.

In spite of the progress achieved during the last twelve months, the crisis in the sector has not yet been overcome and households and enterprises have continued to suffer frequent power cuts. Electricity losses (39%) and illegal connections are still high, and collection rates require further improvements. Thus, continued and successful implementation of the Action Plans (revised annually to fix targets for the succeeding years), and of the National Energy Strategy is imperative.

The **telecommunications sector** has improved both in terms of distribution, as well as the rate of information distributed throughout the country, although remote areas are still weak spots. This growth has been the result of increased investment rates in the fixed-line telephone system, as well as the ever growing mobile market. By the end of 2003, the number of Albtelecom's fixed line subscribers reached 222 000. Meanwhile, about 25 privately owned telephone operators are providing service to about 12 000 users in rural areas. Mobile users have increased from about 800 000 last year to 1 000 000 in 2003. Mobile penetration is almost 33%. According to mobile operators, 80% of the whole territory, corresponding to 90% of the total population, is covered by the service. However, the full liberalisation of the sector has seen some setbacks. A third mobile telephony license has been awarded, but to a company owned completely by Albtelecom, which is still a state-owned company. In addition, Albania has delayed the liberalisation of fix telephony international calls until 1 January 2005 as part of its attempts to achieve the successful privatisation of Albtelecom. There is an urgent need to develop a sound sector policy which supports not only the sector liberalisation, but also the strengthening of the relevant regulatory body and the approximation of Albanian legislation to the new EU framework for electronic communications.

Access and use of the internet remain limited. The number of internet subscribers is about 5 000, and the number of users is estimated at 30 000. This is partly due to current network limitations, and to the high prices charged by service providers.

#### 4.4. Co-operation in Justice and Home Affairs

*Co-operation in the field of Justice and Home Affairs remains a matter of serious concern. Full political will and commitment by all relevant actors (law enforcement bodies, the judiciary, the*

*prosecution) are elements essential to ensuring significant progress in this demanding area. These have not been sufficiently present over the reporting period, and results have therefore been limited. Albania has continued to carry out sporadic actions against organised crime, but has not ensured proper prosecution of considerable numbers of arrested suspects. More determined and sustained action remains necessary.*

*Albania appears to have made progress regarding the control of illegal migration/trafficking towards the EU through the Adriatic/Ionian Seas, but events in early January (see item 4.4.4 below) demonstrate that further efforts are needed. The negotiation of a Community Readmission Agreement and the conclusion of this type of agreement with EU and other countries have been positive steps. However, border management continues to require substantial improvement. Limited progress has been made in terms of fighting money laundering. Some steps have been taken to combat local drug production and drug seizures have increased in relative terms. However, Albania needs to do much more to address the trafficking of hard drugs such as heroine and cocaine.*

*Albania's position regarding the fight against terrorism has continued to be constructive. Nonetheless, limited resources hinder the country's ability to tackle efficiently terrorist threats.*

#### **4.4.1. Visa, border control, asylum and migration**

Some progress has been made in the field of **visa policy**. However the government needs to adopt a clearer implementation strategy for the existing visa regime. The Consular Service within the Ministry of Foreign Affairs has continued its steps aimed at the establishment of a centralised information system, which should provide an online network for Albanian Diplomatic or Consular offices abroad. The existing visa stamp system has partly been replaced with the issuance of visa stickers. Together with the gradual replacement of the old Albanian passport by new passports with an increased security standard, the use of more secure visa stickers will contribute towards the fight against cross-border crime, irregular migration and the trafficking of human beings. However, the practice of issuing many visas at the borders remains a problem. As regards the identification of fraudulent documents at the border-crossing points, the Albanian Border Police skills and equipment remain poor and need to be substantially upgraded. Albania has taken steps to liberalise visa requirements for the other countries/areas of the region, and citizens of Croatia, Montenegro and Kosovo do not need a visa to enter Albania. Citizens of Serbia and Bosnia and Herzegovina are exempted during the summer period (1 June – 30 September). Furthermore, Albania has also removed visa requirements for EU acceding and candidate countries. Albanian citizens continue to need visas to travel to SAP countries, except for entry to Montenegro and Kosovo.

Despite last year's recommendations, limited progress has been made as regards **border management**. This is therefore an area which continues to require substantial improvement. The Albanian Strategy on Border Management, adopted in February 2003, should be extended to integrate all necessary elements related to an Integrated Border Management (IBM) Strategy, i.e. border control, customs, veterinary and phyto-sanitary inspections, etc. The implementation of the IBM should be accompanied by adequate training of all relevant actors. Although a Memorandum of Understanding (MoU) regarding cooperation between all border authorities was concluded in December 2002, both the roles of border police and customs officials, as well as their working/co-operation methods, are not yet sufficiently clear. The current checking procedures at the borders need to be improved. The overall efficiency of the Border Police remains low due to a series of factors, including limited training, lack of efficient risk analysis procedures, insufficient in-service and interagency co-operation, limited equipment and poor infrastructure. Inadequate border controls in the Tirana International Airport, as well as the ports of Durrës and Vlora, remain areas of concern. Albania should therefore take urgent action to improve border management in these areas. Amongst other things, the VIP zone in Tirana airport

should be managed in accordance with international standards, notably by limiting its use to real VIPs, and ensuring consistent checking of luggage. It is also important that the action plan developed to increase overall security at the Tirana airport be fully implemented.

Albania has taken some steps to enhance the on-ground co-operation with all neighbouring countries, and specific agreements have been signed with UNMIK/Kosovo and with Greece. A Memorandum of Understanding has also been signed with Montenegro. However, further cross-border efforts need to be made in order to establish procedures which lead to increased facilitation for legal traffic, and to tangible results in the fight against all types of smuggling and trafficking. Following the Ohrid Conference on Border Security in May 2003, Albania presented the measures that they intend to implement in the area of border management at the JHA Ministerial meeting in November 2003. Progress will be measured in the framework of the review mechanism set up at the Ohrid conference and will be an important indicator of Albania's commitment to this important issue.

The general legislative framework in the area of **asylum** is rather broad and tends to meet international standards. However, much of the supporting secondary legislation and by-laws have not yet been enacted. Furthermore, the existing legislation is still not fully implemented and not all institutions are fully operational and meet international standards. Progress has been made in the finalisation of the National Action Plan on Asylum, although it has not been endorsed by the Council of Ministers. Due to the lack of enactment of certain by-laws, specific material relating to asylum seekers is still not available, such as residence permits, ID cards and travel documents. Although the former office for Refugees has become a directorate within the Ministry of Public Order, and has now a new set of operational procedures and additional staff, the processing of asylum claims is still well below the international standards. Despite the fact that the law lays down a maximum of 51 days to process asylum claims at the first administrative instance yet some take from 1 to 2 years to process. The centralised pre-screening system has yet to be extended to the border areas. Under these present circumstances, the respect of the non-refoulement principle for asylum seekers cannot be guaranteed. The reception centre for Asylum Seekers was completed in April 2003 and hosts up to 60 asylum seekers. However, as yet the Government has not taken full ownership of its management, and it remains dependent on international agencies. Albania should make further efforts to address both the legislative and operational aspects to ensure the proper functioning of the current asylum procedures, and to aim at the development of a fully-fledged system in full compliance with international standards.

In the field of **migration**, the Albanian legislative framework on immigration has undergone a gaps analysis, the outcome of which will feed into the National Strategy on Migration (including both emigration and immigration), foreseen for the end of 2004. In order to prepare the National Strategy, a number of institutional bodies, including an Inter-Ministerial Committee on Migration (IMCM) and an inter-institutional working group, should be set up as soon as possible. So far, the IMCM has not been established, whilst work on the inter-ministerial working group has still not been fully consolidated. In addition, it has not yet been decided how this strategy will be coordinated with existing National Strategies in the fields of asylum, anti-trafficking and border management. Albania has also drafted amendments to the Law on Foreigners. In this respect, Albania should ensure that requirements under any SAA regarding EU citizens working and/or residing in Albania are duly taken into account. Albania should also ratify a number of important international conventions, notably the ILO Migration for Employment Convention (1949), the ILO Migration Workers Convention (1975) as well as the European Convention on the Legal Status of Migrant Workers (1977).

Albania has made progress in the field of **readmission**. Negotiations for a readmission agreement between the EC and Albania were conducted in 2003 and in December the agreement was initialled. Steps should now be taken to ensure that the agreement is signed and ratified as soon as possible in 2004. To date Albania has readmission agreements in place with Italy,

Hungary, Belgium, Switzerland, Bulgaria, Romania, Germany and Croatia, whilst the UK agreement was signed in October 2003. Negotiations are on-going with the Netherlands<sup>3</sup>, Luxembourg<sup>3</sup>, FYROM, Slovenia<sup>3</sup>, Slovakia<sup>3</sup> and Bosnia and Herzegovina. Albania is also trying to negotiate and conclude readmission agreements with Moldova, Ukraine and Turkey. Overall, the current and planned readmission agreements appear to cover the readmission of third country nationals and stateless persons, and to ensure protection of asylum seekers and refugees in line with the 1951 Geneva Convention. However, Albania's weak administrative, technical and operational capacity continues to challenge proper implementation, particularly as regards the readmission of third country nationals and stateless persons. Further efforts are therefore necessary in order to address these issues. Albania should also pursue its efforts to sign readmission agreements with neighbouring countries as well as with the countries of origin of most of the migrants transiting through Albania on their way towards the EU.

#### **4.4.2. Money laundering**

Albania still has a primarily cash-based economy. The past 12 months have seen some improvements in anti-money laundering legislation, and it is generally considered that the laws are now adequate for the task. The amendments encompass the 40 recommendations against money laundering and the 8 recommendations against terrorist financing published by the Financial Action Task Force on Money Laundering. More transactions are now reportable to the appropriate authorities, and non-banking institutions such as travel agents and casinos have been included in the reporting requirements.

However, the legislation is not being properly implemented, and enforcement remains limited. The bodies responsible for dealing with the problem, i.e. the Financial Intelligence Unit (FIU) of the Ministry of Finance, the Prosecutor's offices and the Police Economic Crime Unit (ECU), lack the sufficient human, technical and professional capacities necessary to ensure enforcement. Co-operation and co-ordination between these bodies need to be substantially enhanced. It is imperative that the FIU, ECU and Prosecutors office establish efficient working procedures without delay so as to make sure that Money Laundering laws are enforced and that penalties for failure to report transactions are imposed. An efficient case management system should also be rapidly established. During money laundering investigations, Albania should ensure that it not only identifies the financial means available to criminal organisations, but also the origin of these financial means. Another issue relates to the limited seizure of assets resulting from criminal activities practised so far. This issue should be addressed through full exploitation of existing legal possibilities as well as through the establishment of an inter-ministerial agency for this purpose. The shortcomings in implementation of the law so far are clearly reflected in the statistics of the Ministry of Justice which show that in 2002 there were no convictions for money laundering-related crimes. In 2003, there were only four relevant convictions.

#### **4.4.3. Drugs**

Albania continues to be a major route for drug trafficking. The past 12 months have seen some limited progress in the area of anti-drug enforcement, but overall the situation still gives cause for concern. The legislative situation can be considered as adequate. Amendments to the Criminal code in the year 2001 established appropriate anti-narcotics articles and legislated for strict punishment. A common guideline for the use of special investigative means (SIM)

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<sup>3</sup> In view of the initialling of the readmission agreement between the European Community and Albania on 18 December 2003, it is important to note that bilateral readmission negotiations between Albania and individual Member States or acceding States are neither necessary nor legally permissible, in accordance with Article 10 TEC. Consequently, the only bilateral negotiations between these States and Albania that can be conducted in the future are those on the implementing Protocols, as provided for by Article 19 of the Community readmission agreement.

(controlled delivery, police purchase, etc.) has been issued but, at present, only relates to narcotics offences, and should therefore be expanded to cover other criminal activity as soon as possible. Albania should now ensure that legislation is actually enforced. In parallel, it should also prepare a National Strategy for Drugs in compliance with the EU Drugs Strategy and Action Plan, so as to address this problematic issue in a comprehensive way.

The agency primarily responsible for tackling the illegal drugs problem remains the police. Albania is a significant supplier of cannabis. There has been some success in the fight against cannabis cultivation and trafficking with the occurrence of several large scale seizures and crop destructions. However the situation regarding enforcement against heroin and cocaine has only seen limited progress. Whilst seizures have increased (for example, 114 Kg of heroin was seized in 2003 against 72 Kg in 2002), the amounts seized do not reflect the actual quantities passing through the country to the EU. Co-ordinated efforts at national level for the purpose of gathering intelligence and following up cases in order to identify trafficking networks should be enhanced, and an adequate risk-analysis system should be established. The extent of the synthetic drug problem is unknown. Although, to date, there have not been seizures of such drugs, the Albanian authorities should nevertheless heighten their attention so as to prevent trafficking or production of this type of drug.

As with the fight against organised crime in general, those attempting to tackle narcotics trafficking face severe limitations. This is due to a combination of factors, including limited training, insufficient equipment, poor police management, corruption, and the ruthlessness of trafficking gangs. Albania needs to imperatively enhance its efforts in this area.

#### **4.4.4. Police**

Over the past twelve months, the police have made some progress within specific fields, with perhaps the most significant step being that of the progressive implementation of the law on ranks and careers. Another positive note was the behaviour of the police during October's local elections. Nonetheless, the police remain weak. Training activities have not yet had the expected impact and need to be continued. Community policing has to be strengthened. Police management also needs to be substantially enhanced. The introduction of the order on the judicial police, which clarifies the respective responsibilities of the judicial police and the other state police officers, is to be welcome. However, despite this order, working procedures should be further improved. In this context, a consolidated manual of procedures for all Criminal Police Officers should be established. Furthermore, increased co-operation between police and prosecutors remains essential to achieve results in investigating and prosecuting crime.

At the present stage, the police are not able to satisfactorily guarantee consistent enforcement of the law in accordance with international standards, and public confidence in the police remains low. If respect for the rule of law is to develop in the country, the police must further address these problems with vigour. The police reported an 84% detection rate in 2003. However, it remains very difficult to track a case from initiation to conclusion. The transparency of the criminal justice process should be substantially increased.

Corruption affects the criminal justice system, including the police. While the Government condemns corruption, this issue needs to be tackled with more determination. Disciplinary and management deficiencies are often addressed by dismissing the individual or chief allegedly responsible. Police members are sometimes dismissed because of corruption, but very few are criminally prosecuted. If a mature and efficient police force is to develop, the issue of corruption needs to be seriously addressed. In this respect, both State Police Law and the Regulation of Discipline need to be amended, and the Office of Internal Control should be more proactive, by reporting criminal offences to the prosecutor where a prima facie case exists.

The involvement of officers in smuggling/trafficking activities, as regrettably demonstrated in the aftermath of the Ionian Sea accident of January 2004 where over 20 people died whilst illegally trying to reach Italy, was a serious blow to the reputation of the police forces. Public confidence will only grow in Albania if the police can show enhanced professionalism, improved ethical behaviour and increased investigative capacities to investigate both serious crimes and their perpetrators.

#### **4.4.5. *Fighting organised crime and terrorism***

Although identified as a top priority in the 2003 SAP report, real progress in the **fight against organised crime** has been poor. According to the General Prosecution, organised crime activity in Albania increased in 2003. Current legislation does not clearly define organised crime, and this is a matter that will have to be urgently addressed. Law enforcement co-ordination aimed at efficiently fighting organised crime remains limited. The State Police's Organised Crime Sub-Directorate has approximately 450 staff but its output is very low. The General Prosecutors Office has had similarly unsatisfactory results and the two agencies should therefore enhance cooperation in order to better tackle the problem. The present system for investigating organised crime is inefficient and far too open to corruption and intimidation of investigators. It also lacks a true national approach. The process is decentralised with local prosecutors having responsibility for cases, and the General Prosecutors Office having only a watching brief. This set-up increases the risk of corruption during prosecution. Albania should also pay for more attention to ensure prosecution of members of law enforcement bodies involved in organised crime-related activities.

The capacity of the intelligence and analysis section of the police's Organised Crime Sub-Directorate should be enhanced. The sub-directorate's analysts are now performing better by concentrating on examination of intelligence data. Even so, the problem remains that essentially, formal police intelligence structures do not exist. The knowledge of individual police officers around the country regarding criminals is often impressive, but no structures have been established in order to pool this knowledge. Police must concentrate on developing systems for intelligence collection and to formalise the handling of informants and undercover agents.

The seizure of assets is an effective method of tackling organised crime, but seizures so far have been very limited due to poor implementation of existing legislation. In addition, Albania lacks the legislation necessary to tackle the issue of stolen goods efficiently. International co-operation should also be further enhanced; in this context, Albania should take steps to prepare for the conclusion of an agreement with Europol. The implementation of the specific action-oriented measures against organised crime presented by Albania at the JHA ministerial meeting of November 2003 within the framework of the EU-Western Balkans Forum would certainly constitute a positive step towards fighting organised crime.

Regarding **smuggling/trafficking in human beings**, an Anti-Trafficking Strategy was adopted in early 2003. This now needs to be properly implemented. A significant reduction in trafficking by speed-boats and dinghies across the Adriatic/Ionian Seas has also been reported. However, the Ionian Sea accident of January 2004 demonstrates that the problem of smuggling/trafficking in human beings requires further and continued attention. The Albanian Government needs to take more determined steps if it wants to address this issue adequately. An anti trafficking exercise in August, 2003, resulted in the arrest of a considerable number of suspected criminals, but prosecution is slow. The Vlora Anti Trafficking Centre remains without a defined role. Despite some efforts by the authorities in deploying special forces and upgrading radar systems, other areas including special investigation means, the interception of telecommunications, and the use of information remain limited and should be enhanced. Agreements concluded with both regional and international partners in relation to combating organised crime need to be enforced with more vigour. Witness protection is also essential if organised crime is to be tackled. New

Witness Protection laws are reportedly being finalised but there is the fear that the finances required to implement the legislation might not be available. Nonetheless, this should not prevent Albania from tackling the more basic aspects of witness protection, for example the protection of witnesses in court and the use of screens or close circuit television.

Albania's attitude as regards the fight against **terrorism** has been constructive. Albania has clearly supported international initiatives in this respect and aims at progressively adopting relevant UNSC Resolutions and UN Conventions. Albania has also proceeded to expel suspected terrorists. Some steps have been taken in order to improve air and airport safety. However, weaknesses in the field of Justice and Home Affairs continue to undermine Albania's capacity to efficiently counter possible terrorist threats.

## 5. EC FINANCIAL ASSISTANCE

Between 2000 and 2003 Albania has benefited from around €180 million in EC assistance. Besides CARDS funding, the EC provided support for specific Justice and Home affairs actions and humanitarian and democratisation assistance.

The priorities for CARDS assistance are outlined in the EC Country Strategy Paper for 2002-2006 and Multi-annual Indicative Programme covering period 2002-2004.

In 2003 €46.5 million was allocated to Albania under CARDS covering actions in the areas of Justice and Home Affairs, Administrative Capacity Building, Economic and Social Development and Democratic Stabilisation. The 2003 CARDS annual programme was approved by the Albanian Parliament albeit after a delay caused by the difficult political climate prevailing in the country. The programme was finally signed in December 2003. The CARDS Regional Action Programme from which Albania also benefits was approved at the same time.

The Thessalonica Summit of June 2003 allocated additional financial resources to the Western Balkans and this implied an additional envelope of €6 million to be added to the CARDS 2004 programme (originally € 52.5 million, now €58.5 million). In addition to the CARDS programme, Albania benefits on a case by case basis from funding allocated under specific budget lines in the fields of justice and home affairs, human rights and democratisation, and environment. In the framework of the 6th Framework Programme for Research and Technological Development (RTD), Albania can benefit from funding for indirect actions within all thematic priorities of the Programme and from funding for complementary activities of the INCO part of the 6<sup>th</sup> Framework Programme.

A number of CARDS programmes funded from both the 2001 annual programme (€ 37.5 million) and 2002 annual programme (€44.9 million) are under implementation. These include the continuation of resident support missions to both police and customs (including the "Organised Crime Initiative" aimed at strengthening the capacity of police and customs administration to combat organised crime), support to the Ministry of Economy on standards and certification, assistance to the Ministry of European Integration on CARDS programming and monitoring, a full survey in relation to mines and unexploded ordnance on the border with Kosovo, a programme of legal training, and a project for the formulation and implementation of migration policy across the Government.

As far as macro-financial assistance is concerned, the Commission adopted in December 2003 a proposal for a Council Decision which would provide Albania with EC macro-financial assistance of up to €25 million (€16 million grant and €9 million loan). The purpose of this assistance, the disbursement of which will be subject to the fulfilment of a set of economic and reform conditions to be agreed with the Albanian authorities, is to help ease the country's external financial constraints in 2004 and to secure its reserve position. A decision on this

Commission proposal needs to be adopted by the Council, after consultation with the European Parliament, before the assistance can be implemented.

The European Investment Bank (EIB) has signed loans worth €149 million since 1995, of which around €17 million has been cancelled, whilst almost €56 million has been disbursed.

The implementation of EC assistance programmes in Albania has improved to some extent. The Ministry of European Integration has shown an increased degree of ownership in identification of projects for financing under the 2004 CARDS Programme. The Ministry entered into systematic consultation of line ministries regarding their priorities, and made the first tentative attempts to forge links between the CARDS Programme, the Government's National Strategy for Socio-Economic Development and the Medium-Term Expenditure Framework. In terms of Government policy-making and co-ordination coherence, such an initiative provided the donor community with a sign it had been waiting on for some time. This approach now needs to be further enhanced. In addition, the structures involved in implementation of Community and other financial assistance should clearly be strengthened.

In order for CARDS to be capable of efficiently supporting Albania in addressing its many challenges, it is vital that Albanian beneficiaries ensure adequate commitment throughout the project cycle, including provision of appropriate Albanian counterparts. It is also crucial that the beneficiaries have a genuine interest in, and motivation for, each project's successful implementation.

## **6. PERCEPTION OF THE EU**

The progressive integration of the country into EU structures appears to be one of Albania's main political aspirations. This continues to be reflected by the discourse of Albania's political and administrative elite. Close and frequent contacts with the EC have allowed these elites to develop a relatively good understanding of the semantics of the integration process.

Albanian think-tanks have continued to monitor the evolution of the EU perception in Albania. Public attitudes towards the EU remain positive, but the understanding of the population as to the requirements for EU accession, as well as to what the EU can offer at every stage of the process, are limited and needs to be improved. Misperceptions are frequent, and expectations and hopes about the EU's capacity to help Albania resolve its internal problems, including political ones, are over-estimated.

EU assistance is certainly appreciated. However, the focus of financial support on institution building-related issues is viewed with some scepticism, chiefly because results in this area are less immediately tangible to the population than, for example, infrastructural development. In addition, the slow pace of EU assistance implementation experienced so far does not play in favour of high visibility. In addition, the Albanian population do not always perceive sufficiently the positive elements of the regional aspect of the SAP process. For them, real benefits are brought by enhanced relations with the US and the EU.

The public's perception of the EU in Albania is highly influenced by politicians and the media. How these two informants portray the process is therefore crucial. It is imperative that a realistic and accurate account of the process be communicated, because failure to do so will result in Albanians being misinformed to the point that today's misperceptions become tomorrow's frustrations. In this regard, it is clear that Albanian politicians frequently send an overly optimistic message to the population. This is problematic because it heightens people's short term expectations to the point that, when they are not met, they feel deceived. It is therefore essential that a realistic message be passed by politicians to the people.

The media play an even more central role in shaping public perception. There has been a continuous growth in coverage and debate of EU-Albanian issues, and the quality of this

coverage has improved to a certain extent, due to a progressively improved knowledge of journalists in relation to key issues, such as the functioning of EU institutions and the state of play in relations between the Community and Albania. Nonetheless it is clear that information being provided by the media remains open to partisan manipulation. Most of the Albanian media are easy targets for external influence, be it from the Government, political parties or other (more or less transparent) organisations. This naturally leads to a situation whereby distortion of information and disregard for impartiality are common occurrences. The ultimate consequence is that the public are often misinformed in respect of EU (and other) matters.

The Albanian authorities should further enhance their efforts to provide the Albanian society with precise information on the values, principles, bilateral relations and overall functioning of the EU. Everything possible should be done to ensure that the people are properly informed as to the real situation, so as to limit misunderstandings to the maximum possible extent. Particular attention should be devoted to informing journalists and opinion-makers on the main EU issues affecting the country, notably the Stabilisation and Association process.

<b>STATISTICAL DATA AS OF JANUARY 2004<sup>4</sup></b>					
<b>ALBANIA</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Basic data</b>					
Population (as of 30th June)	3363,9	3387,3	3232,3	3087,9	3129,0
	<b>in km<sup>2</sup></b>				
Total area	28748	28748	28748	28748	28748
<b>National accounts</b>			<b>Mio LEK</b>		
Gross domestic product at current prices	412326	474291	530906	610426	677684
	<b>Mio ECU/euro</b>				
Gross domestic product at current prices	..	3227	4004	4752	5120
	<b>ECU/euro</b>				
Gross domestic product per capita at current prices	..	953	1239	1539	1636
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	12,7	10,1	7,3	7,6	4,7
Employment growth	-2,0	-1,8	0,3	-13,9	0,0
Labour productivity growth	..	..	..	..	..
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita at current prices	..	..	..	..	..
<b>Structure of production</b>					
	<b>% of gross Value Added</b>				
- Agriculture	32,6	29,5	29,1	26,0	25,4
- Industry (excluding construction)	11,8	11,7	12,3	10,8	10,5
- Construction	4,2	5,0	6,7	8,3	8,6
- Services	51,4	53,8	51,9	54,9	55,5
<b>Structure of expenditure</b>					
	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	94,0	79,9	74,9	63,3	X
- household and NPISH	84,2	70,7	66,0	54,1	X
- general government	9,8	9,2	8,9	9,2	X
- Gross fixed capital formation	14,0	17,2	21,3	24,9	X
- Stock variation	15,4	19,0	25,6	33,9	X
- Exports of goods and services	11,1	15,8	19,0	19,7	X
- Imports of goods and services	34,5	31,9	40,8	41,8	X

<sup>4</sup> Eurostat data may be different from figures in other sections of the report, where recent updates have been provided by the national authorities and the International Monetary Fund, but have not been elaborated and processed by Eurostat.

<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index	8,7	-1	4,2	3,5	2,1
<b>Balance of payments</b>	<b>Mio ECU/euro</b>				
-Current account	..	-124,5	-176,8	-243,4	-445,6
-Trade balance	..	-621,0	-889,9	-1147,0	-1223,1
<i>Exports of goods</i>	..	257,7	276,8	340,2	349,6
<i>Imports of goods</i>	..	-878,7	-1166,8	-1487,2	-1572,8
-Net services	..	94,9	19,6	99,7	-5,6
- Net income	..	70,6	115,8	166,5	133,7
- Net current transfers	..	331,1	577,7	637,4	649,3
<i>-of which: government transfers</i>	..	154,6	102,3	31,4	40,4
- FDI (net) inflows	..	38,6	155,0	231,5	142,9

<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
General government deficit/surplus	..	-12,3	-9,4	-8,3	-6,2
General government debt					
<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
External Public Debt of Albania	13,1	13,0	14,0	14,0	17,7
	<b>as % of exports</b>				
Gross foreign debt of the whole economy	..	38,2	61,9	63,8	83,7
<b>Monetary aggregates</b>	<b>1000 Mio ECU/euro</b>				
- M1	..	700,9	935,6	1112,5	1154,0
- M2	..	1630,8	1995,0	2376,5	2453,4
- M3	..	1992,9	2474,7	3069,3	3148,1
Total credit	..	126,0	175,3	217,5	292,0
<b>Average short-term interest rates</b>	<b>% per annum</b>				
- Day-to-day money rate	..	..	..	..	..
- Lending rate	..	..	..	..	..
- Deposit rate	..	..	..	..	..
<b>ECU/EUR exchange rates</b>	<b>(1ECU/euro=XX)</b>				
- Average of period	..	147,0	132,6	128,5	132,4
- End of period	..	135,8	132,6	120,7	140,2
	<b>1995=100</b>				
- Effective exchange rate index	..	..	..	..	..

<b>Reserve assets</b>	<b>Mio ECU/euro</b>				
-Reserve assets (including gold)	..	-115,7	-143,0	-161,9	-30,3
-Reserve assets (excluding gold)	..	..	..	..	..

<b>External trade e)</b>					
Trade balance	-565,3	-755,5	-902,6	-1143,7	-1240,9
Exports	184,8	329,5	283,2	340,7	349,0
Imports	750,1	1085,1	1185,9	1484,4	1589,8
Terms of trade	..	106,8	100,2	101,5	99,9
Exports with EU-15	92,5	94,9	93,4	91,0	92,1
Imports with EU-15	82,6	77,3	75,0	75,0	71,2
<b>Demography</b>					
Natural growth rate	12,5	12,2	10,4	11,2	10,9
Net migration rate (including corrections) Growth rate	1,5	1,0	1,0	-4,5	1,3
Infant mortality rate	20,5	17,5	16	17,4	17,3
Life expectancy :					
Males:	..	71,7	..	72,5	..
Females:	..	76,4	..	77,5	..

<b>Labour market (Administrative data)</b>					
Economic activity rate (15 - 64)	64,3	62,6	60,7	56,8	56,3
Employment rate (15-64), total	52,8	51,1	50,5	47,4	47,4
Employment rate (15-64), male	67,7	65,3	62,3	60,1	60,0
Employment rate (15-64), female	38,7	37,7	36,1	35,0	35,1
Average employment by NACE branches					
- Agriculture and forestry	70,8	72,1	71,8	57,7	57,8
- Industry (excluding construction)	7,8	7,7	5,5	7,7	7,6
- Construction	1,0	1	1,2	6,1	6,1
- Services	20,4	19,2	21,5	28,5	28,5
Unemployment rate, total	17,7	18,4	16,8	16,4	15,8
Unemployment rate, males	15,8	16,4	14,9	14,2	13,6
Unemployment rate, females	20,9	21,4	19,3	19,9	19,1
Unemployment rate of persons < 25 years	25,5				26,8
Long-term unemployment share	88,9	90,2	89,6	91,8	93,1
<b>Infrastructure</b>					
Railway network	14,1	14,1	14,3	14,6	14,6

**Note:** Data on Labour Market are administrative data; unemployment refer to registered unemployment except "Unemployment rate of persons < 25 years" which is based in the Living Conditions Survey of 1998 and the LSMS of 2002

Length of motorways	..	..	..	..	..
<b>Industry and agriculture</b>					
Industrial production volume indices (public sector)	..	115,2	127	61,7	..
Gross agricultural production volume indices	..	..	..	..	..
<b>Standard of living</b>					
Number of cars	27	27	34	43	47
Main telephone lines	34	41	45	63	70
Number of subscriptions to cellular mobile services	2	3	6	120	390,0
Number of Internet subscriptions	..	..	..	..	..
P=provisional figures					
E=estimate					
<i>CAVEAT: It should be noted that due to a variety of data collection methods, survey and calculation techniques, data presented in this Statistical Annex are not always fully comparable.</i>					