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A. INTRODUCTION

1. Preface

The European Council in Feira in June 2000 confirmed that

“its objective remains the fullest possible integration of the countries of the Western Balkans region into the political and economic mainstream of Europe through the Stabilisation and Association process, political dialogue, liberalisation of trade and cooperation in Justice and Home Affairs. All the countries concerned are potential candidates for EU membership”.

In view of the EU-Western Balkan Thessaloniki Summit in June 2003, the General Affairs and External Relations Council adopted “The Thessaloniki agenda for the Western Balkans: moving towards European integration”¹. The Thessaloniki agenda strengthened the Stabilisation and Association process by introducing new instruments to support the countries’ reform and European integration efforts, including European Partnerships. This agenda was endorsed by the European Council and by the countries of the Western Balkans in June 2003.

In June 2005, the European Council reiterated that:

“... each country’s progress towards European integration, taking account of the evolution of the acquis, depends on its efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association process. Moreover, in this process, regional cooperation and good neighbourly relations will remain essential elements of EU policy.”

The structure of the report is largely the same as that used in previous years and assesses the implementation of the Stabilisation and Association process. The report:

- describes the relations between Albania and the Union;
- analyses the political situation in Albania in terms of democracy, the rule of law, respect for human rights and the protection of minorities;
- assesses the economic situation in Albania in terms of economic developments and progress towards economic stability and competitiveness;
- reviews Albania’s capacity to implement European standards, that is, to gradually make legislation in key policy areas more compatible with European legislation and standards;
- examines the extent to which Albania has addressed the European Partnership priorities.

This report takes into consideration progress since the 2004 report. It covers the period from March 2004 to 30 September 2005. It looks at whether planned reforms referred to in the

¹ Conclusions of the General Affairs and External Relations Council, 16 June 2003.

2004 annual report have been carried out and examines new initiatives, as well as assessing the overall level of implementation.

Progress has been measured on the basis of decisions *actually* taken, legislation *actually* adopted and the degree of implementation. As a rule, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all countries and permits an objective assessment of each country in terms of their concrete progress implementing the Stabilisation and Association process.

The report draws on numerous sources of information. Albania has been invited to provide information on progress made since the publication of the last report. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting the report.² The Commission has also drawn on assessments made by various international organisations, in particular the contributions of the Council of Europe, the OSCE, the international financial institutions, and non-governmental organisations.

2. Relations between the EU and Albania

Recent developments in bilateral relations

Albania is participating in the Stabilisation and Association Process (SAP). Current contractual relations between the Community and Albania are based on the 1992 Trade, Commercial and Economic Co-operation Agreement which should be replaced by the Stabilisation and Association Agreement (SAA) once conditions for its conclusion are met. Parts of the SAA will be implemented through an Interim Agreement until the ratification of the SAA is completed. The EU is Albania's principal trading partner, and Albania benefits from unilateral trade concessions under the EU's autonomous trade measures (ATMs). The EU provides guidance to the Albanian authorities on reform priorities through the European Partnership, which is followed up through regular Consultative Task Force meetings. Albania also benefits from substantial EU financial assistance.

The 1992 Trade, Commercial and Economic Co-operation Agreement aims to develop and diversify trade between Albania and the EU, as well as providing a basis for commercial and economic co-operation. A Joint Committee oversees the proper functioning of the agreement, meeting annually, and most recently in May 2005 in Tirana. Five sectoral Working Parties meet annually to monitor developments and reforms in their respective fields and report to the Joint Committee.

Between April 2004 and July 2005, Working Party meetings in Brussels and Tirana covered a wide spectrum of issues: *economic and financial matters*: macro- and micro-economic development, budgetary, trade, fiscal and monetary issues; *infrastructure*: transport, environment, water, energy and telecommunications; *agriculture and fisheries*, including consumer protection; *customs and taxation*: legislative developments and administrative capacity; *harmonisation of legislation*: areas of particular importance for SAA negotiations

² For the European Parliament the rapporteur during the reporting period was Mrs. Doris Pack, MEP.

such as intellectual property rights, competition, public procurement, state aid, company law, enterprise policy, accounting, auditing and free movement of goods, services and capital.

Negotiations on a draft **Stabilisation and Association Agreement** began in early 2003. Since the beginning of March 2004, three official rounds (including Member State representatives) and five technical rounds of negotiations have been held with the Albanian authorities on the draft agreement. Agreement in principle has now been reached on most elements of the text of the draft agreement. However, in his letter of April 2005 to the former Prime Minister, the Commissioner Rehn made clear that Albania would need to ensure the proper conduct of the 2005 parliamentary elections and tangible achievements on European Partnership priorities in the fields of rule of law, land ownership, human rights, media freedom and customs before the Commission could recommend the conclusion of the agreement.

A European Parliament-Albania inter-parliamentary meeting took place in Brussels in November 2004. Issues discussed included the political and economic situation in Albania, focusing in particular on electoral law, property law and on fighting organised crime. Contacts with the European Economic and Social Committee regarding Albania have taken place on an ad-hoc basis during the reporting period.

The Council decision for the adoption of the **European Partnership** for Albania was published in June 2004 (*see part C – European Partnership: Overall Assessment*). Albania adopted its Action Plan for the Implementation of European Partnership Priorities in September 2004 and provided the Commission with updates on its progress in implementing the Action Plan in December 2004 and March 2005.

Since March 2004, five Consultative Task Force meetings have been held with Albania. The meetings have focused on key European Partnership priorities: fighting organised crime, preparing the 2005 parliamentary elections, respect of human rights by law enforcement bodies, land restitution/compensation, freedom of expression and media, minority rights, migration and public finance management. Each meeting has resulted in a set of agreed recommendations for action by the Albanian authorities.

The EU is Albania's main **trading** partner, representing about 74% of Albania's total imports and around 85% of its total exports. EU exports to Albania grew by 9% from 2003 to 2004, while EU imports from Albania grew by 10.2%, resulting in an increase in Albania's trade deficit with the EU from about EUR 760 million in 2003 to around EUR 820 million in 2004. The EU primarily imports manufactured products from Albania. Textiles account for approximately 28% of EU imports from Albania, and agricultural products for about 8%. The EU's main exports to Albania are machinery and other manufactured products, accounting for about 75% of total EU exports. Agricultural products account for 15% of total EU exports. Since April 2004, definitive safeguard measures on imports of preserved citrus fruit have been in place with erga omnes effects, thus also covering Albania. A safeguard investigation on imports of frozen strawberries was opened in July 2005. Albania has benefited from the Community's Autonomous Trade Measures since September 2000. These measures allow almost all imports originating in Albania to enter the EU without quantitative restrictions and exempt from customs duties. The only exceptions are some beef and fish products, sugar and wine, to which preferential tariff quotas apply. However, to take real advantage of these autonomous trade preferences Albania needs to improve its industrial, sanitary and phytosanitary standards and improve the quality of its production, in particular in the agricultural and fisheries sector. Attracting greater foreign direct investment to improve

competitiveness is important and Albania should also use its export promotion agency more strategically, and strengthen its WTO secretariat. Progress in the adoption of EC standards needs to be matched by improved co-ordination and implementation capacity in line ministries.

Community assistance

Over the period 1991-2004 **Community assistance** to Albania has totalled about EUR 1.2 billion, of which about EUR 635 million was delivered through the Phare programme. Other significant types of assistance have included substantial food and other urgent humanitarian aid, balance of payments support, support to elections via OSCE, the TEMPUS programme of assistance to small projects in the higher education sector, and loans from the EIB.

Between 2000 and 2004 Albania benefited from around EUR 240 million of EU assistance (an annual allocation of about EUR 50 million). Since 2001 CARDS has been the main EC financial instrument for Albania. CARDS assistance, which supports Albania's participation in the SAP, targets four broad reform priorities: Justice and Home Affairs (about 40% of the funding), Administrative Capacity Building (about 20%), Economic and Social Development (about 35%) and Democratic Stabilisation (about 5%). Management of EC projects has been transferred to the EC Delegation in Tirana, in close cooperation with the Albanian Ministry of European Integration, and the implementation of EC assistance programmes has improved, with the existing backlog gradually being reduced.

The support provided through CARDS in 2005 is mainly focused on European Partnership priorities, which take into account the political and economic situation in Albania and the requirements Albania must fulfil in order to be able to implement an SAA. Total CARDS assistance allocated to Albania in 2005 amounts to EUR 44.2 million. The four main areas of support are:

Democratic Stabilisation (EUR 2.4 million) – to enhance the role of civil society and the media in the European integration process by reinforcing the role of NGOs, trade unions and other civil society organisations, encouraging their involvement in policy debate and policy-making; to meet social challenges by supporting a funding mechanism for the delivery of social services by civil society.

Good Governance and Institution Building (EUR 26.6 million) – to support judicial reform (EUR 3.8 million), to support the Albanian State Police in the fight against organised crime and terrorism, and in ensuring police integrity (EUR 3.0 million); to support the ongoing Police Assistance Mission of the European Commission to Albania (PAMECA) (EUR 7.0 million); to build public administration capacity (EUR 4.3 million), to support decentralisation (EUR 5.5 million); and to improve customs and taxation (EUR 3.0 million).

Economic and Social Development (EUR 14.7 million) – to improve the investment climate (EUR 3.2 million); to establish a National Food Authority (EUR 3.0 million); to design and supervise the construction of key road sections (EUR 3.5 million); to treat environmental “hot spots” and to assess the environmental legislation implementation monitoring system (EUR 3.0 million); to implement TEMPUS III (EUR 1.0 million) to promote the development of the Albanian higher education system and to help develop the social insurance system (EUR 1.0 million).

Opening of Community Programmes (EUR 0.5 million). The EU agreed at the 2003 Thessaloniki summit to open participation in Community programmes to the Western Balkan countries, following the model of previous enlargements. A Framework Agreement between the Community and Albania on participation in Community Programmes was signed in November 2004. The Community ratified the Agreement in May 2005, and Albania did so in May 2005. The Albanian financial contribution ('entry ticket') required to cover the expenses of its participation in the programmes may be partly paid through the CARDS budget.

Albania also benefits from the regional CARDS programme, which in 2005 has an overall budget of EUR 40.4 million to support actions of common interest for the Western Balkan region, for example in the fields of infrastructure, institution building and cross-border cooperation in conjunction with Interreg activities.

In addition to CARDS assistance, Albania is also a priority country for the European Initiative for Democracy and Human Rights, and benefits from the LIFE environmental programme, as well as from the 6th Framework Programme for Research and Development.

The Commission has prepared a Memorandum of Understanding to grant macro-financial assistance to Albania (up to EUR 25 million: EUR 16 million grant + EUR 9 million loan). The first instalment of EUR 12 million will be released before the end of 2005 following the ratification of the Loan Agreement by the Albanian parliament in September 2005. The release of the macro-financial assistance is associated with the conditions which include improved public finance management with more secure financial circuits, measures to improve the functioning of the public administration and the fight against corruption, and progress in financial sector reform. Albania has fulfilled the necessary conditions to enable the disbursement of the first instalment.

Twinning

One of the main challenges for Albania is the need to strengthen its administrative and judicial capacity. To help Albania to address it, the Thessaloniki Summit decided to extend the "**twinning**" mechanism, which was used successfully during the previous enlargement, to the Western Balkans. "Twinning" makes the Member States' public sector expertise available to the partner country through the long-term secondment of civil servants and accompanying short-term expert missions and training. The Western Balkans can also draw on Member States' expertise through "twinning light" (projects of up to six months' duration). Currently three twinning projects are under implementation in Albania. These projects support the Albanian Border Management Strategy, the Ministry of Finance in the improvement of the Internal Financial Control and the Institute of Statistics. Four more twinning projects are planned to start in 2005.

B. IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS

1. Political situation

The conditions of the Stabilisation and Association process were set out in the conclusions of the General Affairs Council in April 1997. To become EU members, the countries need to satisfy the criteria established in the Copenhagen European Council conclusions of June 1993. The Copenhagen political criteria stipulate that countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

Elements for examination include democratic principles, human rights and rule of law, respect for and protection of minorities and regional cooperation. In addition to these, specific elements of relevance to individual countries are examined, including respect for international obligations such as peace agreements and cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

In its 2004 report the Commission found that, overall, Albania’s medium-term interest was often sacrificed to shorter-term, narrower political interests, and that consolidation of democratic culture was essential to bring about necessary reforms. An adverse political climate - tensions between the main political parties and within the Socialist Party which then held power - delayed reform, with the result that many shortcomings identified in previous Reports were not addressed.

Regarding **democracy and rule of law**, the report concluded that, despite an improved electoral code, the October 2003 local elections displayed serious deficiencies. The ability of the public administration to implement potential Stabilisation and Association Agreement (SAA) commitments remained an issue of concern. While some steps had been taken to improve the functioning of the judicial system, considerable efforts were still necessary to improve law enforcement, in particular as regards serious crime. Public administration reform and the strengthening of civil society had also seen some progress, but the report concluded that more determination and political will was necessary to ensure further improvement. The report found that rule of law in Albania remained weak, with corruption and organised crime considered serious threats to the country’s progress, and that further efforts were needed to ensure full respect of human rights by law enforcement bodies.

On **human rights and the protection of minorities**, the report noted that while human rights and fundamental freedoms are legally guaranteed, efforts to ensure their enforcement should be further enhanced. The judiciary needed to be better prepared to deal properly with human rights cases. Government attempts to interfere with the media reportedly continued. Some legislative progress had been made on the restitution/compensation of confiscated land through the preparation of new legislation. Albania needed to make further efforts to protect of minority rights, and was called upon in particular to accurately evaluate the size of minorities in Albania, and to improve minority-related legislation so that it supports the implementation of the relevant international conventions ratified by Albania.

As regards **regional issues**, Albania was reported to have maintained a constructive attitude, with relations with neighbouring countries continuing to improve, including through the effective implementation of the bilateral Free Trade Agreements concluded under the Stability

Pact Memorandum of Understanding on Trade Liberalisation and Facilitation. In the multilateral field, the report noted that Albania remained an active member of the Council of Europe (CoE) and OSCE, and contributed to the other key initiatives for regional co-operation in South-East Europe, but that international obligations had not always been met owing to Albania's general difficulty in implementing and enforcing legislation.

The section below provides an assessment of political developments in Albania since the 2004 report, including the overall functioning of the country's executive and its judicial system, the rule of law, respect for human rights and protection of minorities and regional issues. Such developments are closely linked to Albania's ability to implement the reforms and reach the standards that are required in order to make further progress in the Stabilisation and Association process and towards the EU.

1.1 Democracy and the rule of law

Parliament

The Assembly of Albania (its unicameral parliament) has 140 members: 100 are elected directly and 40 by proportional representation. The main political parties remain the Democratic Party of Albania (DP) and the Socialist Party of Albania (SP), with a number of smaller parties forming **alliances with these parties**.

The parliament has remained a real forum for political exchange. Significant changes to its internal organisation have improved its functioning and steps were taken to enhance the coherence of new laws, but a confrontational political atmosphere continued to slow the progress of reform. The parliamentary elections of summer 2005 were lengthy and showed shortcomings, but were conducted in a fundamentally sound manner.

The legislature which ended in May 2005 approved a number of important items of legislation, such as a law on property restitution and compensation, amendments to the electoral code, and a package of laws designed to fight organised crime and terrorism. With the parliament increasingly taking a central place in Albania's political life and dealing with complex legislative issues, it approved new rules of procedure to render its decision-making mechanisms more effective and transparent. The number of standing parliamentary committees was reduced from thirteen to eight (including the European Integration Committee) and a new procedure was introduced to govern plenary sessions. The transformation of the ad hoc parliamentary committee on European integration into a fully-fledged standing committee should allow the parliament to focus more effectively on the European integration process. The 2004 Report was reviewed by the parliament and a series of parliamentary debates and discussions took place to discuss its findings. The Government also involved the parliament in the process of drafting the Albanian Action Plan to implement the priorities of the European Partnership, although the document did not undergo formal parliamentary approval.

The establishment of Legal Reform Commission has contributed to improving the quality and transparency of the legislative process. This Commission has been assigned the task of ensuring the coherence of new laws with regard to both the Albanian legal system and the European and international legal frameworks, as well as proposing and implementing effective mechanisms to ensure the appropriate levels of public information and participation

in the legislative process. The Ministry of Justice has taken steps to enhance the training of legal drafters and relations between the institutions involved in the legislative process, and has issued a manual on law drafting techniques and the legislative process.

The political climate in the parliament remained problematic. Several plenary sessions were held in an overly confrontational atmosphere, with the opposing political camps unable to take a constructive bipartisan approach on important pieces of legislation. Despite the intensification of parliamentary activity, this resulted in several instances of key legislative initiatives being slowed down or stalled.

Parliamentary elections took place in July/August 2005 on the basis of a newly revised Electoral Code. Although lengthy and not without problems, the election was conducted in line with the Electoral Code and adhered to fundamental democratic principles, leading to a smooth transfer of power. The DP and its allies gained a total of 80 seats compared with a total of 60 seats for the SP and other parties, giving the DP and its allies a comfortable working majority. A DP-led government took office in September 2005.

The OSCE/ODIHR Election Observation Mission reported that a number of positive developments characterised the election process: it was conducted in line with an improved electoral code, and in a generally peaceful atmosphere; a wide spectrum of parties and candidates were registered, offering voters a diversity of choices; parties pledged to adhere to a Code of Conduct, which was instrumental in setting campaign standards; media coverage was balanced overall; the Central Electoral Commission and the Electoral College fulfilled their roles transparently and professionally. OSCE/ODIHR nonetheless indicated that a number of issues still have to be addressed, including technical and administrative problems, concerns related to tactical voting, the possible disenfranchisement of a number of students, a lack of improvement in the participation of women in public affairs and, above all, a need to further improve voter lists.

The election's shortcomings point to a need for further improvement of the electoral laws and practices as well as an urgent need for further work on improving the civil registry. If they are to be effective in time to benefit the next set of elections (local elections which should take place in autumn 2006) reforms will have to be implemented considerably more rapidly than was the case for the reforms preceding the 2005 parliamentary elections.

The new legislature provides an opportunity to consolidate the significant progress achieved as regards parliamentary procedure, and most importantly to make further progress in pushing ahead with reforms.

Government

Following a period of instability due to internal quarrelling within the former ruling Socialist Party, the government went through a period of relative political stability. A number of significant new strategies and a new resource planning system were put in place, and the effectiveness of the Ministry of European Integration was improved, but the government did not take full advantage of this stability to move forward on reform issues. The 2005 election campaign, and the ensuing political polarisation, used up a great deal of government energy and slowed reform progress.

The government approved several new strategies, including the National Strategy for Social and Economic Development, the Action Plan for the Implementation of European Partnership Priorities, the National Plan on Approximation of Legislation. The government launched the Integrated Planning System and drafted a considerable amount of new legislation. The government also established an Inter-ministerial Committee for Development of Information Technologies, which will among other things define common standards for IT applications in public administration, and should thus help foster better inter-ministerial co-ordination. The new government now faces the task of ensuring that these strategies are properly implemented and that this is done in a co-ordinated manner. These have proved to be the most problematic aspects of Albania's reform initiatives in the past, and determined political will is required in order to ensure that these initiatives translate into concrete progress on key reform challenges.

The establishment of a fully-fledged Ministry of European Integration and the subsequent government decision to clarify the ministry's competences gave this body a central role in Albania's EU integration process. Since then, the Ministry of European Integration has continued to lead and co-ordinate government activities related to the pursuit of European integration. The ministry underwent internal reform, with the creation of new departments, such as those for the approximation of legislation, analysis and translation. Despite these achievements, more effort must be made to allow the ministry to cope with an ever-growing demand for inter-departmental leadership and coordination. The ministry has not yet been provided with the premises, staff and logistics it needs to fulfil its duties effectively. Newly recruited staff members are generally committed and of a high professional standard, but limited staff numbers restrict the ministry's capacity to take up training opportunities.

The new government, which took office in September 2005, reduced the number of line ministries from 17 to 14 (amalgamating the old Ministries of Public Order and Local Government to form a powerful new Ministry of the Interior, absorbing the former Ministry of Industry and Energy into a new Ministry of Economy, Industry and Energy and combining the formerly separate tourism and culture sectors under a new Ministry of Tourism, Culture, Youth and Sports.

Albania has made important advances in the management of donor assistance. In order to create a single assistance management strategy with a single point of contact with donors, the Council of Ministers launched the Integrated Planning System (IPS). The system is intended to co-ordinate national and assistance investment resources around an integrated, prioritised and budgeted strategy, which focuses strongly on the European integration agenda, and is in line with medium-term economic possibilities. It is also intended to cover the whole cycle of management of assistance, from strategy and planning, implementation and monitoring, to evaluation, thus integrating a number of functions currently split between various ministries. The IPS aims to allow the government to prioritise its expenditure priorities for the progress of European integration, economic and social development and other political goals, but will require considerable political commitment if it is to be effective.

Public administration

Albania has made progress in improving the oversight, recruitment and training of the civil service and taken steps to enhance its legal framework. Considerable efforts remain necessary to restrict political appointments to the appropriate levels, improve salaries and career structures and introduce performance management to raise the effectiveness of the public administration.

Albania has taken steps to make public administration more robust. Proposed amendments to the Civil Service Law (which provides an overall legal framework for the public services with common principles for all civil servants) were approved by the Council of Ministers in March 2005 to ensure that local government and prefectures - bodies not previously covered - will fall under the law. The amendments also foresee the improvement of recruitment and potential retention of civil servants within the public administration. These amendments remain to be adopted by parliament.

The Department of Public Administration has taken a number of steps to make the recruitment process for civil servants more transparent. It has published vacancies and the results of open competitions on its website, and has drafted a manual on recruitment for ad-hoc recruitment committees in an effort to reduce political interference. While open recruitment practices for the central civil service are gradually becoming accepted, delays and inefficiencies in recruitment can cause staff shortages in crucial areas (such as the administration of justice). Shortcomings of the planned amendments to the Civil Service law include the reduction of the appeal period for appointments, and potential contradictions with the Code of Administrative Procedure.

The number of civil servants trained by the Training Institute of Public Administration (TIPA) is increasing each year. TIPA has made great efforts to improve its external communications and to work more closely with local government. A joint initiative of the Ministry of European Integration, Department of Public Administration and TIPA to provide training relating to the EU is being implemented. TIPA has established a Centre for Fiscal Training to train employees of the General Directorate of Taxation and the General Directorate of Customs. Training for civil servants nonetheless remains predominantly supply-driven: ministries should take greater responsibility for defining training needs and ensuring delivery. A better understanding is needed of the generic management training that all civil servants should undertake in order to do their jobs more effectively, and greater action is required on the part of the Secretaries-General, in conjunction with Ministry human resource departments.

The Civil Service Commission, responsible for oversight of the proper application of laws relating to the civil service, is now beginning to work more effectively. In particular, the role of inspectors is being more carefully defined and their activities better focused on the management of the civil service.

The Albanian civil service remains hindered by a pervasive lack of understanding of the need for, or will to implement, a real separation between the political and administrative levels. Political appointments, down to Director level in most central ministries, are still the norm. Notably, the appointment of Secretaries-General remains political, so the potential role of Secretaries-General - that of translating ideas into policy, and of effective personnel management to ensure effective policy execution and service delivery - is severely compromised. Ministers have often been too involved in the day-to-day running of their ministries, and unwilling to leave such duties to permanent civil servants.

Career prospects in the civil service and other public service remain poor. The small numbers and narrow pyramid of levels within the civil service means that creating a career structure in the central civil service remains very difficult, but in the wider public sector there may be more opportunity to introduce career structures and career planning aimed at retaining the most talented and motivated personnel.

Salary structures are currently under review, with a view to possible adjustment. Salary and reward levels are highly variable across the civil service and in the public sector more generally. There is no single legal framework for the bonus system, rendering it impossible for the Ministry of Finance to properly budget costs. The lack of effective public service unions has contributed to a situation whereby, over time, salaries have become severely differentiated, as the Government has favoured different groups of public servants, or where well-placed heads of institutions are able to press cases for special treatment.

The question of performance management has not yet been adequately tackled. The introduction of results-oriented management involving clear objectives would make a substantial difference to the effectiveness of the civil service. In the first instance, monitoring of the performance of civil servants needs to become the norm.

During 2004, the office of People's Advocate (Ombudsman) dealt with 3,840 complaints, nearly half of which were found to fall outside the remit of the office. Half of those admitted were resolved in favour of the plaintiff. The most common complaints examined by the office concerned lack of enforcement of court judgements, local government decisions and questions related to social insurance. Thanks to cooperation with the media and with NGOs, public awareness of its functions has increased, but more effort should be made to give this office increased weight in its relations with public institutions.

Judicial system

Albania's judicial *structure* comprises a Constitutional Court, a Supreme Court, 6 civilian appeal courts and 29 district courts. Each level deals with civil, criminal, commercial and administrative cases. The High Council of Justice makes proposals to the President on the appointment, transfer and dismissal of judges and deals with judicial discipline.

Albania has made some progress towards improving the functioning of its judicial system, in terms of its organisation and transparency, the functioning of the High Council of Justice, developing legislative tools for criminal and juvenile justice, and training. Implementation of criminal justice nonetheless remains weak; judicial independence should be ensured; enforcement of judgements, while improving, is still low, and transparency should be improved. Higher pay could improve the effectiveness of judicial staff, and improved infrastructure is needed.

The Legal Reform Commission, a new advisory body created by the Minister of Justice, has prepared a study on the reorganisation of Courts of First Instance to improve the efficiency of the judicial system. This assessment takes into account elements such as geographical coverage, population size, workload, and the need for new appointments.

Some progress has been made on improving the way the judicial system is able to address criminal justice, with an "anti-mafia package" introducing new legal tools to facilitate the seizure of the proceeds of crime, and the reduction of the scope of material competence of the Serious Crimes Court, focusing it on offences connected to organised crime. Regional judicial co-operation on fighting organised crime has been fostered by the signature of a memorandum of co-operation between the General Prosecutors of the Western Balkan region, and prosecutors have also undergone training at regional level on financial crimes, special investigative means and witness protection. Care should be taken to further develop the legal

framework for witness protection, in such a way as to ensure that the safety of vulnerable witnesses is appropriately balanced with the accused's right of defence.

Despite some positive developments, the proper implementation of the existing legislative framework and the overall effective functioning of the judicial system remain a matter of concern. Efforts are still needed to ensure full *access by all citizens to the courts* and to increase popular confidence in the judiciary. Co-operation between prosecutors and police and the active and sustained control of the investigation by the prosecutor also need to be strengthened. Enforcement procedures in civil, commercial and administrative cases need to be improved in order to bring Albanian rates of execution of judicial rulings closer to EU standards, particularly in cases where the state is the losing party. While the overall rate of enforcement of judgements has exhibited a positive trend - during 2004 6,050 of a total of 13,329 judgements (45%) were enforced compared with 4,865 of a total of 14,917 (33%) in 2003) - there remains considerable room for further improvement.

The existence of two parallel inspection services for the judiciary, one for the High Council of Justice and another for the Ministry of Justice, with no clear division of competences and responsibilities among them, should be addressed as a matter of urgency. The competence of the Ministry of Justice inspectorate should be restricted to purely administrative matters in order to prevent it being perceived as a threat to the independence of the judiciary. It is questionable whether a judicial inspectorate should exist within the Ministry of Justice itself, given that in Albania it is the Office for the Administration of the Judiciary Budget (OAJB - an autonomous body of the judiciary) rather than the Ministry of Justice which is responsible for administering the budget of judiciary. Albania's Minister of Justice sits on the High Council of Justice, and although the minister does not have voting rights in disciplinary procedures against judges, he has the power to initiate such procedures. In this context, the principle of judicial independence should be observed.

There has been little progress in fostering the status and *independence* of judges. The High Council of Justice has enacted a number of regulations aimed at guaranteeing effectiveness and transparency in its internal decision-making procedures. Progress was made in the definition of new principles and rules for the *evaluation of the professional performance* of judges as the basis of a fair career development system. Objective rules for the transparent assignment of cases to judges have still to be established. The existing legislation for the evaluation of the work of prosecutors is not yet fully implemented and a more transparent and merit-based evaluation system remains to be developed.

Albania's Magistrates' School further enhanced its capacity to plan and deliver both initial and continuing *training* of judges and prosecutors, with amendments to the law governing its operation. Although concerns have been expressed regarding the autonomy of the School, particularly with regard to the management of its budget, the amendments introduce some positive changes such as mandatory continuing in-service training for judges and prosecutors, and the taking into account of this training in the High Council's evaluation of judges' professional performance. The School has adopted a long-term strategy aimed at ensuring its future sustainability, and the budget of the School has been increased. However, given that donor funding will not be available indefinitely, further steps will be required to ensure the financial sustainability. During the reporting period, all Magistrates' School graduates were offered positions as judges or prosecutors, consolidating the School as the pre-eminent route for recruitment to the professions. Some progress was made regarding training for the legal profession at the Law Faculties, which have been reviewing their curricula in order to align them with the Bologna principles. A memorandum of understanding was signed between the

Ministry of Justice and the School of Magistrates to establish a comprehensive training programme for court administrators at the School.

The government has shown a genuine interest in improving the juvenile justice system. Extensive preparatory work for improving the legislative framework has been undertaken in close consultation with UNICEF and the European Commission.

Albania's judicial *infrastructure* remains deficient. A long-term Master Plan for Judicial Infrastructure has been drafted, but the declared political support of the Albanian authorities for the physical upgrading of the courts has not yet been accompanied by the allocation of the necessary resources under the state budget. Improving publicly available information on the rulings of the first instance and appeal courts (the judgments of the Constitutional Court and the High Court are regularly published) and on the services involved in the administration of justice and their corresponding fees and procedures would help foster Albanian citizens' trust in their justice system.

The administration of justice remains hampered by the relatively low status and salary levels of *judicial staff* such as court and judicial administrators. Except for judges, judicial staff do not have civil servant status and their salaries are systematically lower than those of equivalent grades in government ministries. Better remuneration and job security would improve staff motivation and render the judicial system less vulnerable to corruption. The judiciary's effectiveness could also be improved by defining more clearly and transparently the role of the various categories of court administrator and the qualifications required for each.

Although the Law on Notaries was amended in 2005, implementing legislation has not yet been adopted. No effective internal mechanism exists to ensure the implementation by the Bar Association of the Lawyers' Code of Ethics.

Anti-corruption policy

Some efforts have been made towards progress in the fight against corruption, with the work of the Anti-Corruption Monitoring Group (ACMG) continuing, participation in the Council of Europe Group of States against Corruption (GRECO), new legislation dealing with conflicts of interest, an increasing number of prosecutions of public officials for corruption, strong action against police corruption and the ratification of a number of international anti-corruption conventions. Nevertheless, corruption remains a serious problem. Deficiencies in the implementation, enforcement and coordination of efforts nonetheless remain, and international perceptions of the country in this respect continue to be poor. Despite Albania's efforts, and the active support of the international community in supporting Albania's anti-corruption strategy, tangible results in the fight against corruption remain limited.

Albania ratified the Civil Law Convention on Corruption and the Criminal Law Convention on Corruption in 2001 and signed the UN Anticorruption Convention in December 2003. Albania ratified the UN Convention against Trans-national Organised Crime (the Palermo Convention), which contains several provisions related to corruption, in 2002. Implementation of these conventions requires new legislation, the development of which, with the exception of the organised crime aspects, continues to be slow. Albania is not a signatory country of the 1997 OECD Convention on Combating Bribery of Foreign Public

Officials in International Business Transactions. Albania's penal code makes bribery a crime, but the country has no specific legislation on bribery of foreign officials.

Although the passing of a Law on the Prevention of Conflicts of Interest in the exercise of Public Functions was a positive step, the law covers MPs, the judiciary, and civil and other public servants and is insufficiently adapted to the different types of potential conflicts of interest it seeks to address. There are also concerns that new law duplicates both the Civil Service Law and the existing Law on Rules of Ethics in Public Administration. The Council of Ministers has also passed a decision on the external activities of, and gifts to, public servants. Given that individual line ministries are responsible for drafting the resulting secondary legislation, strengthened inter-ministerial co-ordination will be required if confusion and contradiction are to be avoided. Moreover, the authority responsible for overseeing implementation of the law, the High Inspectorate for the Declaration and Control of Assets, requires a substantial increase in staff numbers if it is to be effective in this role. In addition, the rules and procedures through which police and prosecutors are able to access information on assets held by suspects are not sufficiently clear.

The government has continued to support the institutional and legislative framework in the fight against corruption. As regards the institutional framework, the ACMG, a permanent body under the Council of Ministers, continued its work in reporting and monitoring anti-corruption measures. Further improvements are needed, as line ministries have shown little interest in attending the ACMG meetings and some participants have appeared insufficiently prepared. The transmission of information on anti-corruption measures implemented by the line ministries should be improved, and the protection offered by immunity should be used only in compliance with international rules and practices. Implementation of Albania's Action Plan on the Prevention of and Fight against Corruption should be strengthened and its updates should include realistic, precise and measurable steps. Moreover, the Plan has only limited reach beyond the central public administration. Other levels of public authority should also be addressed in Albania's fight against corruption, possibly by increasing the scope of the Plan so that it addresses regional and local corruption more effectively.

Courses have been provided on a regular basis by the Training Institute of Public Administration in association the ACMG for the training of civil servants, both at central and at local level, on ethics and anticorruption.

The number of public officials prosecuted for corruption is increasing: 171 in 2004, up from 76 in 2003 and 58 in 2002. Significant progress has also been made in the fight against corruption within the police, following the launch in early 2004 of the "Order within Order" initiative in the Ministry of Public Order. Given the close inter-relationship between corruption and organised crime, the October 2004 "anti-mafia package" should in the medium term also help alleviate some aspects of corruption.

In the framework of GRECO, Albania has adopted a Compliance Report on the recommendations contained in the December 2002 First Round Evaluation Report on Albania. The Report recognised the progress made by Albania in implementing some of the recommendations, for example regarding anticorruption strategy, the proceeds of crime and codes of ethics for groups vulnerable to corruption, but also highlighted that more effort should be made to improve the transparency of public authorities vis-à-vis the media and the public, to collect and process data on corruption from all central government institutions, to increase the autonomy of the police and the Public Procurement Agency, to strengthen the office of the People's Advocate (Ombudsman) and to ensure that the State Auditor presents

the scope and justification of its planned activities at the start of each fiscal year. The report issued following GRECO's second evaluation round made a further series of recommendations, calling for improvements including identification and seizure of assets, public officials who move to the private sector, whistle-blowing, and training for both the tax authorities and private accountants and auditors.

1.2 Human rights and the protection of minorities

Observance of international human rights law

Albania has ratified a number of UN conventions relating to human rights, including the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights in 1991; the Convention on the Right of the Child and the Convention on the Status of the Refugees in 1992; the International Convention on the Elimination of All forms of Racial Discrimination and the Convention on the Elimination of All Forms of Discrimination Against Women in 1994. With regard to regional instruments, Albania ratified the European Convention for the Protection of Human Rights and Fundamental Freedom (ECHR) and some of its Protocols, and the European Convention for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment in 1996. In the reporting period, Albania ratified Protocol 12 of the ECHR concerning a general prohibition of discrimination and signed Protocol 14 amending the control system of the Convention.

Since the European Court of Human Rights became a full-time court in November 1998, it has delivered two judgements concerning Albania. In one case the Court found that a delay in the execution of a Court of Appeal judgement violated Article 6.1 of the European Convention on Human Rights (concerning the right to a fair trial.) In another case, no violation was found. Albania has executed the ECHR judgement via an individual decision of the Council of Ministers, but Albania's civil and criminal procedure codes currently lack specific provisions to give the ECHR's decisions legal status systematically.

As regards the right to the protection of personal data, the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data and its additional protocol regarding supervisory authorities and trans-border data flows (ETS No. 181) were ratified and entered into force in Albania in June 2005. However, an independent data protection authority with sufficient powers over the public and private sectors and sufficient means is lacking. It is therefore a concern that the proper implementation of data protection rules is not yet ensured.

Civil and political rights

Human rights and fundamental freedoms are guaranteed by Albanian law, and the government generally observes them. Albania has also ratified a number of international conventions in this area. Problems remain in specific areas, such the occasionally excessive use of force by the police, the failure to execute final court decisions, and in relation to prisons, pre-trial detention facilities and interference by political and financial lobbies in the media.

In 2000, Albania ratified Protocol 6 of the European Convention on Human Rights (ECHR), abolishing the death penalty for peacetime offences, and in 2003 signed Protocol 13 concerning the abolition of the capital punishment in all circumstances.

In the field of *torture and ill-treatment*, Albania's legislative framework is largely in line with international standards, although Articles 86 and 87 of the Albanian Criminal Code do not yet accord with the definition of torture given in the UN Convention against Torture. Police at all levels have been given training in human rights, but the effect of this is limited - according to Amnesty International figures, an average of 35 incidents of torture or ill-treatment are reported each year. Albania should make greater efforts to ensure strict application of the law, adequately punishing perpetrators in a manner appropriate to the seriousness of their crimes. It should also increase the awareness of human rights by training judges and prosecutors on the prohibition of torture, and grant effective remedies, including compensation, to victims.

Despite government efforts to improve *conditions for prisoners*, for example through a new law on internal control in prisons and amendments to the law on escorting prisoners, and through the adoption of a code of ethics for the penitentiary system, conditions inside the prisons and detention centres remain poor. Overcrowding, poor sanitary conditions, inadequate medical checks and treatment, and generally low professional standards of prison staff continue to be a serious problem. The partial transfer of responsibility for pre-trial detention facilities from the Ministry of Public Order to the Ministry of Justice has helped alleviate the problem of convicted individuals continuing to serve their sentences in pre-trial detention facilities, but about 200 convicted prisoners remain in such facilities. Moreover, minors are not always held separately from adults in pre-trial detention facilities, in contravention of Albanian law and international standards. Lengthy pre-trial detention as a result of delayed investigation remains a serious problem.

Resources devoted to running prisons remain insufficient. A number of measures have been taken, however, to improve the legislative, institutional, organisational and infrastructural aspects of the penitentiary system, including for minors. As regards legislation, the Minister of Justice established a working group to draft a plan to upgrade the penitentiary system in compliance with European standards and relevant national legislation, notably the Law on the Rights and Treatment of Prisoners, the Law on Execution of Court Decisions and the Standard Regulation of the General Directorate of Prisons. A number of related laws and regulations such as a code of ethics for the prison system and a law on prison police were introduced as a result.

As far as penitentiary organisation is concerned, a number of changes have taken place, including the approval of the new structure of the General Directorate of Prisons and several modifications in the classification of pre-trial and penitentiary establishments. These organisational changes have been accompanied by transfers of prison police staff and allocations of vehicles, although the overall human and material resources available for prison management remain insufficient.

New prisons have been opened in Peqin and Lezha, and other establishments have been refurbished and their capacity expanded. Despite these improvements, most of these actions were funded by foreign donors and the infrastructure needs in the penitentiary sector remain very significant in terms of both prisons and pre-trial detention centres, where overcrowding and very poor living conditions remain a serious problem. Although some further donor-funded prison infrastructure is planned, the government needs to form a long-term investment

strategy and ensure the corresponding allocation of funds in the government's expenditure framework.

Fewer than 100 minors are currently being detained in Albania. Sentenced minors (roughly one third of the total) are kept in the minors' detention centre at Vaqarr, near Tirana, where there is a special activity schedule and inmates can follow secondary education, but about two thirds of juvenile detainees are on remand and are kept in the pre-trial detention facilities in Tirana, Vlora and other urban areas, where there are serious problems of overcrowding and poor living conditions.

The Ministry of Justice has decided to establish a new juvenile detention centre which can hold 85 minors in Pogradec to replace the existing facility at Vaqarr. Contrary to international standards in this field (notably the UN Rules for the Protection of Juveniles Deprived of their Liberty) the size and isolated location of the planned new centre will make individualised treatment difficult and hamper families' ability to visit their children regularly, which may potentially have a negative effect on their rehabilitation.

As regards *access to justice*, Albanian legislation guarantees *free legal defence* for defendants who cannot afford a private lawyer, but this service does not always provide timely and appropriate legal assistance.

According to the Constitution there is no official religion and all religions are equal. The government respects the *freedom of religion* and relations among the various religious groups are generally amicable. Albania continues to provide a valuable example of religious harmony in the region.

Freedom of expression and of the *press* is constitutionally guaranteed in Albania. There are a large number of formally independent media outlets, but most remain subject to political or economic interests. The professional and ethical standards of the Albanian media are generally low. Journalists are frequently intimidated through threats of prosecution for libel or defamation - offences which carry severe penalties. Libel remains a criminal offence which can result in sentences of up to two years. Although legislation is planned to address this issue, it has not yet been finalised. Cases of psychological and physical violence against journalists on the part of representatives of the state authorities are isolated, but remain present. The legal framework for the protection of media freedom remains inadequate, for instance the independence of the media is hindered by the fact that current legislation does not oblige the disclosure of ownership. Although Albania has undertaken some work on new legislation, especially with regard to strengthening the legal protection of journalists and improving and modernising their status, the parliament was unable to approve a new law on printed media before the conclusion of the last legislature under the previous government in May 2005. Progress towards introducing an organic law on the written media, and reforming the criminal and civil defamation laws has been slow. Practical measures relating to the right to freedom of opinion and expression of journalists and media representatives and also training to increase the professionalism and independence of journalists remain inadequate. A positive development, albeit under pressure from the international community, was the parliament's rejection of a draft law on digital terrestrial broadcasting which departed from OSCE and the Council of Europe recommendations and risked creating a monopoly.

The Constitution provides for *freedom of peaceful assembly* and the *right of association*, and the Government generally respects these rights.

The Constitution prohibits *discrimination* based on race, ethnicity or language, but there are reports of discrimination against the Roma and the Egyptian communities. Freedom from persecution based on sexual orientation is not explicitly constitutionally guaranteed and there are persistent reports of arbitrary arrest and mistreatment of homosexuals by the police. In general terms, it appears that the level of protection against discrimination is still far from the EU standards, requiring the implementation of the principle of equal treatment between persons irrespective of racial or ethnic origin and the establishment of a general framework for equal treatment in employment and occupation, irrespective of religion or belief, disability, age or sexual orientation.

The *right to property* is protected by law. The adoption of the Law on Restitution and Compensation of Property and the establishment of the State Committee on Restitution and Compensation of Property and the related local commissions were an important step in fulfilling a constitutional obligation, but many of the deadlines it envisaged were not met. The Assembly therefore subsequently decided to extend the deadline for submission of property claims by a year until 2006, resulting in the potential delay of full implementation until 2007. The Assembly also adopted a Law on Valuation Methodology for Compensation of Property. In its current form, the methodology could have very considerable budgetary implications and could therefore adversely affect Albania's ability to implement both the new restitution and compensation law and its socio-economic development priorities. Moreover, initial registration of real estate is not proceeding at the pace necessary to provide the inventory of available state land which is needed in order to estimate financial needs for cash compensation. It appears that much of the property in urban and coastal areas, where the land market is most active and which have the greatest economic potential, remains unregistered. There remain persistent allegations of the unlawful privatisation of properties where the restitution/compensation process has not yet been implemented.

Non-Governmental Organisations (NGOs) are gaining influence and taking on a growing role in virtually all aspects of the social, economic and political life of Albania. The 2001 Albanian Law on NGOs provides a solid basis for further development of the NGO sector. This law is considered one of the most liberal of such laws in the region, allowing NGOs considerable latitude of activities, rights and responsibilities. NGOs generally operate without government restriction. Nonetheless, Albania would benefit from a government policy which more actively encouraged the involvement of NGOs in the decision making process.

Economic and social rights

The government continued its efforts to promote the economic and social rights of disadvantaged groups. Some progress was achieved as regards gender mainstreaming: the parliament approved a new law on gender equality and a National Strategy on People with Disabilities was approved by the Council of Ministers. Despite these improvements, women, disabled people and the rural poor still face problems in achieving equal economic and social rights to the rest of the Albanian population.

A new Law on *Gender Equality* promotes equal opportunities and seeks to eliminate direct and indirect discrimination in areas such as public sector employment. A positive development has been the establishment of the State Committee on Equal Opportunity, but it has been criticised by the NGO community as under-funded and lacking political influence. Discrimination against female children is forbidden under the law, but girls, especially in rural areas, are still forced into early marriage. Women in Albania are not yet protected by

specific legislation addressing the issue of domestic violence. In a traditionally male-dominated society, violence against women including spousal abuse remains a serious problem. The number of cases reported and prosecuted appears to be significantly lower than the number of real cases.

As regards *children's rights*, an Inter-Ministerial Committee on the Rights of the Child and a department for children's rights in the office of the People's Advocate have been established, although neither has yet been properly equipped with staff and resources. The government has shown commitment to improving the juvenile justice system, for example by constructing specific detention centres for juveniles. The number of children hiding at home due to blood feuds has been significantly reduced, but about 160 children are still reported to be living in this situation, and are thus prevented from exercising rights such as their *right to education*. Efforts to help children with special needs to obtain equal access to social and economic rights should be increased, and this also applies to children who are obliged to work. Albanian law provides the right to 9 years of free education, but socio-economic problems and lack of proper documents - which are sometimes lost during internal migrations - impede the completion of compulsory education for many children. Equal access to medical care for citizens of all ages continues to be hindered by widespread informal payments and bribery.

In the field of *labour rights and trade unions*, the Albanian constitution guarantees the right to earn a living by choosing or accepting lawful work. The legal minimum wage for all workers over the age of 16 is approximately EUR90, which is insufficient to provide a decent standard of living for a worker and his/her household. Albanian law also provides for social assistance and unemployment benefit, but income support is very limited and is often poorly targeted. The right of association gives workers the right to form independent trade unions, although unions experienced a drop in membership during 2004 due to unemployment and member dissatisfaction.

Minority rights, cultural rights and the protection of minorities

The Albanian legislation recognizes three national minorities (Greek, ethnic Macedonian and Montenegrin) and two ethno-linguistic minorities (Vlach and Roma). The Greek minority is the largest group, led by its cultural association Omoneia. Albania has made considerable efforts to protect minorities, including in the field of education and the provision of schools and classes for certain minorities in specific areas. A State Committee on Minorities has been established to improve the representation of minorities in public life. Further efforts are now required to complete the legal and administrative framework for the protection of minorities and to implement it, mainly as regards increasing the use of minority languages in citizens' dealings with the authorities and the display of traditional local names, improving access to media for persons belonging to minorities and extending minority language education. Contrary to its specific commitment, the government has as yet failed to provide accurate statistical information concerning the size of minorities, an issue which is of particular importance in relation to the Greek minority.

In 2003, the government adopted the National Strategy for the Improvement of Living Conditions of the Roma Minority, which also provides for a mechanism to monitor its implementation. Despite some measures under this strategy, both the Roma and the Egyptian communities continue to suffer prejudice and discrimination in a number of societal settings. The education of children, professional training and the employment of persons belonging to these minorities remains unsatisfactory. The relevant provisions of the Council of Europe's

1999 Framework Convention for the Protection of National Minorities, to which Albania is party, are not yet fully implemented. Albania should further develop practical measures under the National Strategy for the Roma and plan financial resources for its full implementation.

1.3 Regional issues and international obligations

Albania has continued to actively pursue *regional cooperation* activities aimed at deepening political and commercial relations with its neighbours.

Albania is implementing Free Trade Agreements (FTAs) with the following eight countries: the former Yugoslav Republic of Macedonia, Croatia, Bulgaria, Romania, Kosovo (under UNSCR 1244), Moldova, Serbia and Montenegro and Bosnia and Herzegovina. FTA negotiations with Turkey are underway.

Albania has successfully participated in activities under a number of multilateral regional initiatives during the reporting period, including the South-East Europe Cooperation Process (SEECP), the Stability Pact, the South Eastern European Initiative (SEEI), the Adriatic-Ionian Initiative, the Black Sea Economic Cooperation (BSEC), the South-East Cooperation Initiative (SECI) and the Border Security Initiative. Moreover, Albania has continued a policy of non-interference and conciliation as regards domestic issues concerning Albanian minorities in neighbouring countries.

Relations with the State Union of **Serbia and Montenegro (SCG)** are reasonable and stable. The signature of an FTA between Albania and SCG was an important step, although its full potential has yet to be realised.

Albania has maintained an open and constructive policy towards Kosovo. Albania supports a settlement on Kosovo's final status within the framework of its integration into the EU. The main elements of Albania's stated policy on Kosovo have been as follows: full respect for human rights, including all minorities, the exclusion of partition or division or any change in size of the territory of Kosovo, and a status that reflects the will of the people of Kosovo. Initial statements by the new government have confirmed Albania's constructive position along these lines whilst indicating a more active approach.

Relations between Albania and the former Yugoslav Republic of Macedonia have continued to be good. The FTA between the countries has led to increased bilateral trade, and in addition to state visits at presidential level, ministerial meetings have taken place on a wide variety of topics.

Italy is Albania's main commercial partner as well as its largest bilateral donor, with a business presence of SMEs, primarily joint ventures. Italy has conducted major bilateral cooperation activities with Albania, such as the Italian Delegation of Experts, which has been assisting the Albanian Armed Forces in its efforts to meet NATO standards. As regards cooperation in the field of justice, liberty and security, Italy issued 20,000 short-term Schengen visas in 2003/2004 to Albanian citizens. In 2004 the Italian government reserved the largest individual visa allocation for Albanian citizens in response to the Albanian government's efforts in fighting trafficking of human beings across the Adriatic Sea.

Greece remains Albania's second largest trade partner, and positive relations have continued between the two neighbours. More than 600,000 Albanians currently live and work in Greece and the number of short-term Schengen visas issued by Greece increased by 20% between

2002 and 2004. In 2004, 17,000 work-permit visas were issued to allow Albanians to work in Greece. Major efforts towards improving communication have been undertaken by the Greek and Albanian governments.

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

As regards the *International Criminal Court* (ICC), in June 2003 Albania ratified a bilateral immunity agreement with the United States which runs counter 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” adopted by the Council of the EU in September 2002.

Albania has shown a constructive attitude in the context of Stabilisation and Association Agreement negotiations regarding countering the *proliferation of weapons of mass destruction* and their means of delivery. Nonetheless, capacity to monitor implementation of international obligations (e.g. regarding terrorism and non-proliferation) should be reinforced.

Albania joined NATO’s Partnership for Peace initiative in February 1994, one of the first countries to do so. In a joint statement at the June 2004 NATO summit, Albania, together with Croatia and the former Yugoslav Republic of Macedonia, reaffirmed its readiness to maintain, and extend when feasible, its contribution to NATO’s policies, initiatives, missions and operations. Albania also reiterated its hope to achieve full NATO membership as soon as possible, and backed the inclusion of Bosnia and Herzegovina and Serbia and Montenegro in the Partnership for Peace initiative.

1.4 General evaluation

As regards the **political situation**, Albania has made progress in reinforcing its democratic, judicial and public administration institutions, but needs to implement strategies and laws with more vigour to further improve their functioning. Efforts have been made to fight corruption and improve human rights. Further commitment is needed to achieve significant results. Albania has continued to play a positive political and commercial role in the region.

The Parliament has remained the centre of political exchange and has passed a considerable amount of important legislation. Overly marked political confrontation has hindered political consensus on reform issues, slowing progress. New internal parliamentary rules, and in particular the strengthened European Integration Committee, could help foster constructive consensus. The July 2005 parliamentary elections were fundamentally sound and resulted in a smooth transfer of power, but showed shortcomings which demonstrated a need for further electoral reform.

The government has developed major new strategies and co-ordination tools relevant to Albania’s EU progress. In many cases further energy and commitment is needed to use them to achieve concretely improved results. The Ministry of European integration has been strengthened, but needs further resources in order to improve its leadership and co-ordination on EU issues. The merging of several ministries could improve co-ordination in related policy areas but care will be needed to ensure appropriate checks and balances.

Albania has improved the oversight, recruitment and training of its public administration and taken steps to enhance its legal framework. It now needs to ensure an appropriate division

between its political and administrative levels, and improve assessment procedures and conditions of employment for its civil servants.

Progress has been made in improving the functioning of Albania's judicial system. Training for judges and prosecutors has been improved and should now be followed by further steps to ensure their independence and better employment conditions for other judiciary staff. Measures to increase judicial transparency and co-ordination have been taken, but more are needed. Although more judgements are now executed, the level of execution remains relatively low. New legal tools and regional agreements should now be used to achieve better concrete results in fighting organised crime and terrorism.

Some efforts have been made to fight corruption: work has continued in international fora, new conflict of interest legislation has been adopted, more public officials have been prosecuted for corruption, and strong action has been taken against police corruption. Nonetheless tangible results remain limited: considerable further efforts are required to enforce current legislation and adopt new measures in line with Albania's anti-corruption action plan, GRECO recommendations and international anti-corruption conventions.

In the field of human rights, Albania has made some efforts to improve conditions for prisoners, with a new code of conduct and internal control law for prisons, but inadequate infrastructure means physical conditions remain poor. Knowledge and enforcement of domestic law and international conventions on treatment of prisoners should be improved. Little concrete progress has been made in improving media freedom. Legislative progress has been made in reinforcing property rights, but implementation must be greatly accelerated. Albania is an example of religious tolerance, but requires further progress to reach international standards in human and minority rights.

Albania has continued to play a positive role in the region, actively pursuing the deepening of political and commercial relations with its neighbours through free trade agreements and regional multilateral initiatives, and maintaining a constructive policy towards Kosovo.

2. Economic situation

In its 2004 Report, the Commission found that:

“For Albania 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.”

In examining the economic developments in Albania, the Commission’s approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union;

and by the Conclusions of the Council of Ministers of 29-30 April 1997, which stated that contractual relations with the EU require

- macroeconomic institutions and policies necessary to ensure a stable economic environment;
- comprehensive liberalisation of prices, trade and current payments;
- setting up of a transparent and stable legal and regulatory framework
- de-monopolisation and privatisation of state-owned or socially owned enterprises;
- establishment of a competitive and prudently managed banking sector.

In the analysis below, the Commission has followed the methodology applied in previous annual Regular Reports.

2.1 Economic developments

Macroeconomic developments

In 2004, GDP growth remained high at about 6% as the transition related reallocation of resources continued to boost productivity. Real economic growth is projected to have reached 5.9% in 2004. Average inflation remained subdued at 2.9% in 2004 and further decreased to around 2.2% in the first three quarters of 2005, still within the target range of the Bank of Albania (2 - 4%). The lek appreciated by about 6% against the euro in 2004 despite easing domestic interest rates and occasional Bank of Albania (BoA) interventions, reflecting

improved external accounts and growing confidence in the currency. The lek continued its appreciating trend, strengthening vis-à-vis the euro further by more than 2% over the first three quarters of 2005. For 2004, the authorities continued the course of fiscal consolidation and the current budget (deficit adjusted for investment expenditures) is estimated to have been broadly in balance for the first time since transition started. Amid low inflationary pressures, the Bank of Albania lowered its main policy rate to 5.0% (by 125 basis points between January 2004 and March 2005). The trade deficit narrowed to 21.5% of GDP in 2004 as re-export processing activity increased and imports remained subdued due to increased domestic supply of strategic products (electricity, foodstuffs). The current account deficit has narrowed to 6% of GDP in 2004 compared to 8.1% in 2003.

Albania - Main Economic Trends

		2000	2001	2002	2003	2004	2005	
Real GDP growth	%	7.3	7.2	3.4	6.0	5.9	n.a.	
Inflation rate	% (average)	0.0	3.1	5.2	2.4	2.9	2.2	Jan-Sep
	% (end-of-period)	4.2	3.5	1.7	3.3	2.2	3.1	Sep
Unemployment rate	% of labour force	16.8	16.4	15.8	15.0	14.1	n.a.	
General government balance ¹	% of GDP	-9.2	-8.5	-7.3	-4.8	-5.3	n.a.	
General government balance ²	% of GDP	-8.2	-7.9	-6.6	-4.4	-5.0	n.a.	
Trade balance	% of GDP	-22.1	-23.2	-25.8	-24.6	-21.5	n.a.	
Current account balance ³	% of GDP	-7.4	-6.4	-9.7	-8.1	-6.0	n.a.	
Current account balance ⁴	% of GDP	-4.4	-3.4	-6.9	-5.6	-4.4	n.a.	
External debt	% of GDP	31.8	27.8	25.1	21.7	19.9	n.a.	
	Billion €	1.27	1.27	1.20	1.09	1.22	n.a.	
Debt-export ratio	%	166	143	129	122	104	n.a.	
Foreign direct investment ⁵	% of GDP	3.9	5.0	3.0	3.1	4.5	n.a.	
	Million €	155	227	143	155	276	42	1st qu

(1) before grants (2) after grants (3) before official transfers (4) after official transfers (5) net

Sources: National authorities, IMF, EC estimates.

Structural reforms

Progress in public administration reform has continued, the administrative capacity of the tax administration has improved over the recent period and several crucial reforms have been put in place (management of human resources, training, reform of the appeal system etc.) however the collection and control capacity remains weak. In the field of public financial control and internal audit, some progress has been made in 2004. Whereas privatisation of small- and medium-sized enterprises has been completed, large-scale privatisation has suffered delays. However, as far as the banking sector is concerned, the sale of Savings Bank to a strategic foreign investor was completed in 2004. In contrast, the ratification of the sale agreement that would complete the privatisation of Albtelecom was rejected by the Albanian Parliament in October 2005, calling for a review of the sale contract and the whole tender procedure.

2.2 Progress towards economic stability and competitiveness

Establishment of market principles

The development of market principles requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Despite a somewhat confrontational political climate there was broad consensus about the essentials of economic policy. A number of initiatives have been taken in drafting various policy papers and in preparing legislation. In particular the multi-annual plan to alleviate poverty and improve governance under the National Strategy for Social and Economic Development (NSSD), the Action Plan for the Implementation of European Partnership Priorities, the National Plan on Approximation of Legislation and the Integrated Planning System (intending to integrate all policy frameworks into a single development plan linked to a medium-term expenditure framework and the annual budget) were recently set up. However, the ability of the new executive to bring about an effective policy coordination and implementation remain to be seen.

GDP growth remained high at about 6% as the transition related reallocation of resources continued to boost productivity. Real economic growth is projected to have reached 5.9% in 2004 after 6% in 2003. As far as the sector distribution of GDP growth in 2004 is concerned, transportation and construction are estimated to have grown by more than 10%, services by 6.4%, and agriculture and industry by 3%. GDP growth has been driven by productivity gains through reallocation of resources, but a broad-based expansion of tradable output has not yet taken root. In addition, the Albanian economy scores poorly in investment attraction and, despite a decrease in absolute poverty, one quarter of the Albanian population lives still below the poverty line.

External deficits shrank as the economy's savings-investment balance improved. The export performance of Albania strengthened in 2004 on growth in re-export processing activities and import growth declined as the domestic supply of electricity and foodstuffs has improved. The trade deficit narrowed to 21.5% of GDP from 24.6% in 2003 and was largely covered by migrant remittances and other private and official transfers from abroad, buttressing incomes and domestic demand. In particular workers' remittances play a very significant role in the Albanian economy. In 2004, they accounted for around 14% of GDP. This considerable inflow has allowed Albania to continue running its fairly large deficit in trade of goods and services. Income from migrant workers was boosted by demand for Albanian workers during the construction of the Athens Olympic sites. The current account deficit (excluding official transfers) narrowed to 6% of GDP in 2004 compared to 8.1% in 2003. Domestic investment in Albania accounts for about 24% of GDP.

The labour market began to improve. Robust economic growth during the last few years had a positive impact on the labour market. However, the magnitude of this impact is difficult to evaluate, due to substantial emigration and informal employment. At the end of 2004, the unemployment rate (based on registered data as Albania has so far not conducted a Labour Force Survey) is estimated to have reached 14.1%, which is slightly better than a year before when it stood at 15%. However, registered unemployment provides a very unreliable measure

due to a significant informal sector and hidden unemployment in agriculture, while some jobless fail to register.

Inflation continued to decline. Annual consumer price inflation reached 2.2% in December 2004, compared to 3.3% in 2003. The average annual inflation rate in 2004 was 2.9% and further decreased to 2.2% in the first three quarters of 2005. The relatively low and stable level of inflation is a reflection of continued lek appreciation against the euro and US-dollar, which helped to shield the Albanian economy to some extent from developments in the crude oil market. In addition, favourable developments in agricultural production helped to keep foodstuff prices stable, which account for almost 43% of the consumer price index.

Low inflation and lek appreciation has allowed for lowering of key monetary policy rate. Amid benign inflation developments, the BoA lowered its main policy rate by 125 basis points between January 2004 and March 2005 to 5.00%. However, in real terms, the short-term interest rate has remained at a relatively high 3% and was virtually unchanged from end-2003. Together with the appreciation of the lek, monetary policy conditions indeed remained tight. The exchange rate regime of Albania is a managed float and in 2004, the lek appreciated by about 6% against the euro despite the easing of domestic interest rates and occasional BoA interventions, reflecting improved external accounts and growing confidence in the currency. The latter also being reflected in the growing share of lek deposits. The lek continued its appreciating trend, further strengthening vis-à-vis the euro by more than 2% over the first three quarters of 2005.

Fiscal retrenchment continued in 2004; nevertheless fiscal consolidation remains fragile. The authorities continued a course of fiscal consolidation and the current budget balance (deficit adjusted for investment expenditures) is estimated to have been broadly in balance for the first time since transition started, although on a cash balance basis, the budget deficit reached 5% of GDP in 2004. The tax revenue-to-GDP ratio stood at about 21% of GDP. Tax revenues collection met its target in 2004, however frequent cases of undue pressure by the tax authorities have been a major issue for businesses. The social security contribution is still unsatisfactory (less than 35% of employees in the private firms are covered). Tax evasion and tax avoidance in the household sector is sizable - undeclared household income is estimated at 52% of GDP. Albania's informal economy is estimated to account for 30% of the official GDP, which is a key impediment to generating revenue from channels other than international trade. On the expenditure side, there are still important inefficiencies, in particular in some of the social and infrastructure sectors, calling for greater prioritisation in public investment management, planning and execution.

The macroeconomic policy mix was broadly appropriate. Fiscal policy and monetary policy have continued to be tight. Inflation has been low, GDP growth again strong and external accounts have improved. However, structural reforms in the fiscal area has been slow and should remain a priority with a particular focus on improving the budget process, expenditure management and civil service and public pay reform.

Most prices have been liberalised. Nevertheless, government subsidies still affect prices for water, education, railway transport, and electricity.

Land reform has contributed to the development of the private sector, which accounted for about ¾ of GDP in 2004. Albania has introduced sweeping land reforms as a necessary precursor to the development of land markets. As a result of this reform, the rural landscape has been dramatically transformed with all collective farms disbanded, and approximately

98% of agricultural land (546,000 ha) distributed to smallholders. This has transformed farming from a collectivised, command structure to a fully private sector with smallholder families farming small and fragmented plots for their own consumption and the market. Pasture land and forests have mostly not been part of the privatisation process. Only recently has state ownership been transferred to communities and private persons.

Whereas privatisation of small- and medium-sized enterprises has been completed, large-scale privatisation has suffered delays. 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 in 2004 constitutes a major step forward. What remains on the agenda of enterprise privatisation and 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, implementing a comprehensive programme for modernisation and rehabilitation of the energy sector financed by international donor institutions as well as through own funds. The privatisation process is also ongoing in the oil and gas sector. The privatisation process of Albpetrol (production), ARMO (refinery) and Servcom (distribution) has already started. The government offered to sell at least 51% in ARMO to a strategic investor who could also apply for the purchase of the remaining stakes to be offered to the public. Nevertheless its first attempt failed and the authorities are considering ways to relaunch its privatisation. In the telecoms sector, in October 2005 the Albanian Parliament voted down ratification of the sale agreement privatising Albtelecom, requesting a review of the sale contract and the whole tender procedure. The terms of the privatisation will be bound by Albania's relevant international commitments. In October 2004, the government adopted a concession agreement for the country's main commercial Airport in Rinas, near the capital Tirana, allowing an international consortium to operate the airport for 20 years, bringing in an investment in the amount of about EUR 83 million and increasing the capacity of the airport to 10 million passengers by 2010. Apart from this agreement, several concessions have been already granted over the past years, although under a legal framework not fully complying with international standards. In June 2005, the previous government approved the Tirana-Durrës-Rinas railway project including associated commercial foreign financing, representing over 1% of GDP. The project still awaits parliamentary ratification.

In 2004, 55,000 operating enterprises were registered, approximately 6% more than in 2003 when approximately 52,000 were registered. 99% of these enterprises were either micro-, small- or and medium-sized, with up to 80 employees. In 2004 the number of new start-up enterprises was 9,603, which represents a 23% increase in the number of newly created businesses against 2003. During 2004, the main sectors of activity of SMEs were trade (50%), services (22%), transport (10%) and industry 12%. 39% of the total number of enterprises was concentrated in and around the capital city of Tirana.

Enterprise creation continued to face obstacles. These obstacles were mainly weak infrastructure, poor legislation and weak implementation of tax legislation, arbitrary administrative actions and decisions, deficiencies in building licensing and public procurement procedures, shortage of skilled labour and energy supply as well as access to financing. In addition, unfair competition by businesses operating in the grey economy remains a problem. To start a business in Albania, the number of required procedures is 11, which is relatively high in regional and international terms. Also associated costs (as a percentage of income per capita) are relatively high. However, the difficulty of both hiring and firing a worker are reportedly relatively low in comparison to other countries.

Practically no progress can be reported in improving company registration procedures. In particular the business licensing regime continues to be characterised by a disorganised system involving a variety of authorities applying complicated and overlapping regulations. The absence of an administrative registration and licensing process, undertaken without court involvement and following transparent and simple procedures, inhibits enterprise creation. One of the few improvements was the abolition of the requirement for annual registration with the Tax Office, as well of the licensing requirement for non-food companies. SME development needs to be further encouraged by improving the business climate, better enforcing legal framework, improving infrastructure and bringing informal sector into the formal economy, ensuring better conditions for fair competition.

Property rights remain weak, damaging the potential for investment and economic activity. Clarifying ownership rights is a fundamental requirement to encourage economic development and long-term land management. Moreover, property registration has not been completed in main urban and coastal areas (where the land market is more active and has higher economic potential). Land ownership issues have been a major impediment to bank lending to small companies because of collateral requirements. The lack of stable land rights hinders economic development and increases corrupt practices. Despite the fact that formal laws connected to foreign investments are in place, uncertainty regarding ownership of land discourages investment in Albania. Multiple privatisation and restitution programs, together with chaotic construction activity, are seriously hampering private transactions.

Albania now boasts a fully privately-controlled banking sector poised to provide improved services to businesses and households. The successful privatisation of the main 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. The Albanian banking sector now consists of a total of 16 majority privately owned banks. Given the dominant position of the Savings Bank - it accounts for around 57% of bank deposits and 70% of the treasury bills market -, competition in the Albanian banking sector is limited at this stage. However, with the privatisation of the Savings Bank and the presence of other active foreign-owned banks, competition is expected to pick up substantially. The appearance of a strategic foreign investor should facilitate the knowledge transfer and contribute to improvements in banking services.

The performance of the financial sector in channelling savings towards productive investment has recently been improving, but still remains weak. Initially the authorities pursued a financial sector policy designed to strengthen, and increase confidence in, the banking sector. This included limiting the growth of intermediation by preventing lending (and the potential creation of high levels of non-performing loans) by the Savings Bank, which accounted for more than 50% of the banking sector, until it was privatized in 2004. Following the privatisation of Savings Bank, banking activities have increased, especially lending to the private sector has been boosted, which increased by 30% over the previous year. In 2004, credit to the private sector has been growing strongly and the credit-to-deposit ratio has increased from 15.7% in 2003 to 18% in 2004. About two thirds of new credit extended in 2004 was of a short-term nature and in foreign currency. The lending-deposit interest rate spread for lek stood at 650 basis points at end-2004. For USD and EUR this spread reached 703 and 681 basis points, respectively. In addition to banks, lending through microfinance institutions and 130 Savings and Credit Associations is effective in serving those segments of the population that do not have easy access to bank financing. However, the increasing availability of credits to the private sector calls for improving the prudential monitoring of the financial sector in general. Intermediation rates are rising, but they still remain rather low. Of

the 46.5% of GDP held by banks as deposits at end-2004, only 8.5% was extended as credit to the resident private sector. Commercial banks are risk-averse and it is difficult to identify creditworthy customers. As a result, banking system liquidity remains high and banks tend to hold excess liquidity in lek and foreign currency. While there are 16 banks operating in the market, only half of them are active in lending to the economy. The low level of financial intermediation remains an impediment to the development of private sector in Albania. Increasing domestic bank lending to private sector, particularly to SMEs, remains a challenge.

The insurance sector is expanding. The first stage of INSIG's privatisation was carried out in October 2003, when a 39% stake of Albania's insurance company was transferred to the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). The IFC and the EBRD will have INSIG under their supervision for a transitional period of 1-2 years, with the objective to attract a strategic investor who would be interested in a 51% stake. In fall 2004, five new insurance companies received licenses for general and life insurance, doubling the number of companies in this sector to ten. Insurance supervision and regulation will have to further strengthen, in order for insurance to play a more central role in the country's economic development.

The Bank of Albania has substantially strengthened its supervisory capacity through the implementation of a risk-based supervision process; however the supervisory structure is in need of further improvements. A Deposit Insurance Agency has been established and is functioning properly. Substantial progress has been made in improving the payments system. The new interbank settlement system for large payments has been fully operational since January 2004 and the fully automated bulk clearing system is expected to be completed by mid-2005. In addition, efforts are under way to strengthen the legal framework on insolvency and bankruptcy procedures. A collateral registry for movable property has been functioning well for over three years.

Competitiveness of the economy

The competitiveness of an economy depends on progress in establishing market principles and achieving a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also depends on the amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the contractual obligations of an SAA and of future membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Albania has achieved a sufficient degree of macroeconomic stability, and market mechanisms are broadly working to allow for an efficient allocation of resources.

Albania's educational attainment - measured by average years of schooling of 8.5 years - is lower than that in most transition economies. The upper-secondary school enrolment rate has declined significantly (38.7% in 2002 versus 79% in 1990) and is lower than in other countries in the region. Enrolment rates fall very drastically after the compulsory eight years of schooling. There are also wide variations across regions and income levels. Public spending on education has declined as well, from 5% of GDP in 1991 to 2.8% of GDP in

2003. While this negative trend is due to a general decline in public spending, public education spending in relation to GDP is still lower than in other countries in the region.

Unemployment in Albania remains high, but the reliability of the unemployment data remains very limited due to serious difficulties to measure it precisely. According to official statistics, at the end of 2004, registered unemployment reached 14.1%. This represents slight progress compared with the previous year, when this indicator was 15%. Due to strong inconsistencies among data sources, the high rate of external emigration and the informal employment or underemployment, it is difficult to evaluate to what extent the variations in the unemployment rate reflect economic growth.

The already small share of industry, without construction, in the economy has fallen further. In 2004 it is estimated to slightly less than 10% of GDP. On the other hand, the estimate of the GDP share of construction was rising further to more than 9%. The estimated GDP share of agriculture somewhat decreased to around 24%. Estimates of agriculture employment differ significantly. Official sources after several adjustments and new calculations estimate some 526,000 employed in agriculture but this is a rough guess at best – previous estimates put the figure much higher at 761,000. This is still more than half of total employment and about one third of the labour force. Long-term unemployment is significantly lower in the coastal areas. Female unemployment rates exceed male rates only in urban areas. Other things being equal, the unemployment risk is highest for men aged 15 to 34 and women aged 15 to 24. On average, neither basic nor secondary education seems to have a substantial effect on employability.

Progress with regard to employment and social policy is part of the work towards European standards. Further efforts to establish economic and social rights as well as to promote employment and encourage social dialogue will contribute to improving governance and economic performance.

The number of mobile telephone users has continued to increase in 2004. According to mobile operators, 80% of Albania's territory, corresponding to 90% of the total population, is now covered by the service. Fixed line penetration stood at 7%. Only 12.4% of Albanian roads are paved.

The agriculture sector accounted for about 24% of GDP in 2004 and continues to have an important function as economic and social buffer, reducing poverty and unemployment. The agriculture GDP registered an increase of about 3% in 2004. Most of the increase is attributable to the food-processing industry, which recorded an increase of 11% in 2004. The traditional sectors such as olive oil, meat, dairy products, flour, wine and beer mainly contributed to the increase. However, the role of domestic industry to promote agricultural growth is still small since most of the raw materials for processing such as wheat, barley and meat are imported from abroad. In 2004, investments to food processing industry increased by 10%. The main investments went to the milk industry, fruit processing and mineral waters. The share of the service sector in the economy continued to increase and reached 46%, while agriculture declined to 24%, albeit remaining still relatively large. Industry and construction remained broadly stable at 10% and 9.5% of total GDP, respectively.

Small and medium size enterprises (SMEs) comprise an important part of Albania's economy. Small and medium sized enterprises in industry and construction are the main generators of employment growth in comparison to other non-agricultural sectors. Micro and small

enterprises account for 71% of total turnover in non-agricultural sectors and contribute about 75% of employment in non-agricultural sectors.

No progress can be reported on improving SMEs' access to credit facilities, as the loan guarantee fund is not operational. In order to make progress in the field, Albania has to find its own financial recourse for SME credit. In particular no significant progress occurred in reducing the reliance on external support provided by international donors by addressing the causes underlying poor access to credit, i.e. by strengthening the legal and supervisory framework for the banking and insurance sectors and improving the legal, regulatory and administrative framework for business entry, operation and exit.

Progress has been made in establishing competition policy. However in order to serve market needs in an appropriate manner and to ensure open, transparent and competitive operating conditions for companies and to protect market and consumers' interests much more should be done to increase an overall understanding of the principles of competition. In addition the existing legislation needs to be improved further to make competition control effective. The adoption of the Law on State Aid in April 2005 was a positive step, however overall the legal framework of the state aid legislation and of its implementing regulations needs to be reviewed and improved.

Albania operates a considerably liberalised trade regime. However, during 2004 it became apparent that for fiscal and economic reasons, Albania was unable to sustain the tariff decreases to which it had committed itself in the WTO. As of January 2004 Albania's Customs Tariff no longer reflected the planned tariff decreases foreseen in the country's WTO accession package. Albania therefore applied for a waiver in January 2005 to extend the period for implementation of tariff decreases for products such as alcoholic beverages, beer, plastic products, cosmetics, wood, paper, furniture, steel beyond the 2004 deadline foreseen in Albania's WTO accession treaty. In March 2005, the WTO approved the request and Albania is now committed to respect its unchanged overall transitional period which ends in 2009.

Overall, Albania has made progress in further liberalising trade and dealing appropriately with problems arising in the context of the WTO commitments. However, it needs to strengthen its administrative capacity in trade management and export promotion.

The Albanian economy shows a relatively low level of foreign trade, as compared to other countries in the region. The value of its exports and imports of goods and services accounts for about 64% of GDP, indicating a still relatively closed economy in terms of trade. The EU remains Albania's main commercial partner, representing about 74% of Albania's total imports and around 85% of its total exports. In terms of trade patterns with the EU, no progress has been made by Albania in diversifying its exports to the EU, which still consist mostly of raw materials. In addition to being a WTO member, Albania has entered into bilateral free trade agreements (FTAs) with the former Yugoslav Republic of Macedonia, Croatia, Bulgaria, Kosovo (under UNSCR 1244), Romania, Serbia and Montenegro, Moldova, and Bosnia and Herzegovina. These FTAs appear to produce benefits for Albanian exports to the region, which increased by 18% in 2004. However, exports to the eight FTA countries as a share of total Albania's exports remained stable between 2003 and 2004, at around 6% of Albania's total exports.

Albania's export structure is geared towards labour-intensive products. Manufactured goods accounted for 88% of Albania's EU-oriented exports, compared with 56% to the rest of the world, with the EU taking up 95% of all manufactured exports. Foods, agricultural and

industrial raw materials accounted for about one third of exports to the rest of the world and 12% of EU-oriented exports. Light manufacturing, mostly of unskilled labour-intensive products (leather and clothing) accounts for about 85% of EU-destined exports of manufactured goods. Textiles and clothing together with footwear and leather products play an important role in Albania's EU-oriented exports, accounting for about 64% of Albania's exports to the EU. High input costs and the poor-quality infrastructure hinder the development of trade. The export share of GDP is among the lowest for all transition economies. Despite the formal opening of Albania's trade regime, only slightly more than one fifth of GDP is generated by the export of goods and services, which is very low in international terms. Albania compares negatively with other SEE countries in terms of input and factor costs.

2.3 General evaluation

The **economy** of Albania operates to some degree within the framework of functioning market principles. Further vigorous reform efforts are necessary to address the shortcomings in competitiveness of the economy.

Growth remained strong while inflationary pressure remained subdued. The current account deficit has narrowed. Fiscal consolidation continued and the budget deficit has declined. Progress in public administration reform has continued and the administrative capacity of the tax administration has improved. In the field of public financial control and internal audit, some progress has been made. Privatisation of small- and medium-sized enterprises has been completed. The sale of the Savings Bank was completed in 2004 and the privatisation of Albtelecom has started in early 2005. Prudential supervision has been strengthened through the implementation of a risk-based supervision process. The labour market is considered as relatively flexible.

However, public sector governance remains to be strengthened and the privatisation of large enterprises has suffered delays. The performance of the financial sector in channelling savings towards productive investment has recently been improving, but still remains weak. The establishment and enforcement of property rights remain difficult, damaging the potential for investment and economic activity. Enterprise creation continued to face obstacles such as weak infrastructure, poor legislation and weak implementation of tax legislation. Unfair competition by businesses operating in the grey economy remains a problem. Educational attainment remains relatively low and the supply of skilled labour is limited.

3. European standards

This chapter gives an evaluation of the implementation of the Stabilisation and Association Process. Alongside an evaluation of relevant developments in key areas since the 2004 report and the European Partnerships, the section gives an overall assessment of Albania's progress towards approximating European standards, and of what remains to be done.

This section also incorporates an assessment of Albania's administrative capacity in its various aspects. Albania must upgrade its institutions, management capacity and administrative and judicial systems, both at national and at regional level, with a view to making further progress towards meeting European standards. At the general level, this requires a well-functioning and stable public administration built on an efficient and impartial civil service, and an independent and efficient judicial system.

In the 2004 report, the Commission found that regarding **internal market** issues:

“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.”

Regarding 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 now need 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 penalties 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.”

And, regarding justice, freedom and security:

“The field of justice, freedom and security] 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 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 heroin 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."

3.1 Internal market

3.1.1. Free movement of goods

Some progress can be reported in the field of **standardisation and certification**. The adoption of European standards continues at a satisfactory pace. The General Directorate of Standardisation (GDS) administers standardisation and certification in Albania. By mid-2005, the GDS had transposed 6856 or 57 % of the European standards (ENs) adopted by CEN as Albanian standards. Albania has focused principally on the adoption of those harmonised European standards that give presumption of conformity to regulatory requirements, in order to prepare for the transposition and implementation of the New Approach Directives. However, line ministries responsible for New and Global Approach and Old Approach Directives need to make more effort to transpose the EU acquis to fully benefit from standards which give presumption of conformity with regulatory requirements.

The GDS is focused on its tasks and possesses the competences to fulfill its mission: in March 2005 GDS was awarded an ISO 9001:2000 quality management system certificate. It is an affiliate member of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC), although it has difficulty securing a budgetary allocation to pay its membership fees. There was an increase in sales of EN standards of 36% in mid-2005 as compared to 25% in 2003, although this did not provide sufficient revenue to cover CEN/CENELEC membership fees.

The Certification Sector of the GDS performs voluntary certification of products. Albania has planned to separate certification functions from those of standardisation by the end of 2007.

The Law on Standardisation of 1999 is still in force (with the relevant amendments related to the Law on Accreditation) and will be amended when certification functions are separated from standardisation. The national plan for the approximation of legislation and implementation of the SAA provides for the setting up of the Standardisation Board which will monitor the daily activity of the GDS.

A Government decree on the organisation and functioning of the **accreditation** Directorate came into force in February 2004, providing for the separation of the functions of accreditation from those of standardisation and certification. The Accreditation Directorate is now under the responsibility of the Ministry of Economy. By September 2004 it had begun to function independently and the number of staff increased from two to fifteen. The specialist staff of the Directorate has received limited training.

No new legislation has been adopted on the field of **metrology**. The Directorate General of Metrology and Calibration (DGMC) is the responsible institution for scientific, legal and industrial metrology in Albania and reports to the Ministry of Economy. The long-term (2005-2015) national strategy on the development of the metrology system, as well as amendments to the Law on Metrology, are still under discussion. The organisation of the DGMC has, however, been strengthened through the establishment of a new legal department and the recruitment of five new specialists. In total the DGMC has 95 staff members. Technical staff has received limited training.

In the past two years, business operators have shown an increasing interest in calibration, which could be attributed to the actions undertaken by the DGMC to increase awareness of market operators about metrology and calibration. However, it is not in a position to meet market requirements

Despite some positive steps by the Consumer Protection Department, the **market surveillance** system is in its infancy and much more progress is needed in the area: for instance, the Department is not entitled to take legal action in cases of consumer rights violations. Employees of the Department as well as market operators have received some training on market surveillance issues. The Department took some steps to improve public awareness on consumers' rights and to facilitate dispute settlement. The Department has prepared templates for complaints forms, which can be completed by market operators and can be used to make submissions to courts.

In the field of **consumer protection**, there is only one established independent consumer body, the Albanian Consumers' Association, which is active in informing consumers and promoting awareness of their rights. The Association should in principle be able to handle and follow up consumer complaints and take legal actions to the court against procedures, sellers, suppliers and service providers in the case of violations. The Association performs well in highlighting products on the market deemed unfit for use. Its members have formed advisory groups around the country to disseminate information on consumer rights and obligations. This also strengthens the efforts of the public administration to monitor the movement of unsafe products in the market. However, the Association is poorly staffed and therefore its operations are limited.

The Consumer Protection Department, which is a separate body under the Ministry of Economy, has four staff members. The department is mainly focusing on drafting legislation and providing policy advice.

Overall, some progress can be reported in the field of standardisation and accreditation. Albania has continued to adopt European Standards, standardisation and accreditation functions have been split and the new Accreditation Department was reinforced by new staff. However, the newly established Accreditation Department needs to demonstrate its capacity to fulfil its functions, and needs to be strengthened in terms of both physical infrastructure and the technical and administrative competence of staff. The main challenges for the Directorate

are to set up a new operational structure together with an internal quality procedure and to adopt a comprehensive work plan for Albania's future membership in the European Cooperation for Accreditation (EA). Albania needs to make further progress in adopting European standards and speed up efforts to become a full member of the European standardisation bodies CEN, CENELEC and ETSI. Much progress is needed in the area of accreditation in order for Albania to be able to meet EA requirements. Awareness of economic operators of the benefits of accreditation needs to be further increased.

An area where more effort clearly needs to be made is in raising the awareness of the private sector of the benefits of standards and certification for business and trade. The GDS should also enhance its cooperation with line ministries. The system of third party certification to regulatory requirements requires sufficient technical competence and independence. Steps will also need to be taken to meet the deadline of 2007 for separating the certification and the standardisation functions.

Overall, very limited progress can be reported in the area of metrology. The same DGMC inspectors are responsible for both certification and market surveillance functions. There is a need to separate these functions in order to avoid conflicts of interest. The existing laboratories lack proper premises; they are inadequately equipped and need to be upgraded in order to satisfactorily carry out the testing needed for the certification of products.

Much needs to be done if the market surveillance system is to be operational by the deadline of end 2006. The legal basis should be improved, including the existing 2003 Law on consumer protection. The necessary administrative structures should be created and know-how on national consumer protection and market surveillance should be improved. A national market surveillance strategy is needed, as well as coordination between the Consumer Protection Department and the other authorities involved with market surveillance tasks. Despite some positive steps on the part of the Protection Department and Albanian Consumers' Association, consumers remain poorly informed about their rights. Furthermore, the customs service and the judiciary lack trained specialists who understand the intent of the market surveillance law and its implementation.

3.1.2. Movement of persons, services and right of establishment

Albania striven 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.

Albania continues to face considerable problems regarding emigration. In Albania the recognition of professional qualifications is generally not restrictive. The country continues to have a liberal trade regime concerning the movement of services and there is generally equal treatment between foreign and national companies concerning the right of establishment.

There has been no particular progress concerning the **movement of persons**. Emigration from Albania remains a problem. In November 2004, the Government approved the national strategy on migration followed by the national action plan (*see Section 3.3.1*). The strategy sets out actions to encourage the return of professionally-qualified emigrants to Albania. While any pro-active measure to reduce brain-drain should be encouraged, it is clear that tangible progress will occur only with an overall improvement in the social and economic conditions and in political confidence. As regards the social insurance system, current

Albanian legislation enables foreign workers to choose between the social insurance system of Albania and that of the country of origin.

In the area of recognition of professional qualifications, in general there are no restrictions based on nationality, with the exception of notaries and lawyers, who are required to have Albanian citizenship. Special requirements on recognition of diplomas received abroad are maintained for certain professions such as medical doctors, nurses, architects and engineers.

Albanian legislation is relatively open in terms of the **right of establishment**. EU firms can already establish themselves following similar procedures to those required for Albanian companies. Some discrimination persists, however: stamp duty for legal registration of a company is about EUR 35 for foreign companies as compared to about EUR 11 for Albanian companies, and foreign companies have to pay an additional sum of around EUR 70 to notarise related documents. The Ministry of Economy should modify the present legislation covering right of establishment in order to fully embrace the principles of equal treatment and make a clear distinction between operators providing services on a temporary basis and those providing services through a permanent establishment. The proportionality of some of the existing requirements for the cross-border provision of services should also be assessed. Moreover, Albania should take steps to prevent its generally liberal approach on establishment being undermined by poor implementation of the legislation and by unclear procedures.

In the area of services, Albania should ensure that its commitments under GATS are as consistent as possible with those of the EC. To this end, Albania should continue to co-operate and co-ordinate closely with the Commission, notably with regard to the Doha Development Agenda negotiations.

Albania has fairly liberal rules in the area of **freedom to provide cross border services**. This has most recently been extended to the telecommunications sector with the opening of the market in the sector as of the beginning of 2005. Albanian law enables foreign insurance companies to provide services, without a requirement to establish a subsidiary in Albania, for the coverage of certain risks incurred by foreigners on Albanian territory. No practical restrictions apply to electronic commerce. Some progress can be reported in the banking sector, with the successful privatisation of the Savings Bank in July 2004 resulting in a boost to banking activity, especially lending to the private sector; it is necessary to improve the prudential monitoring of the financial sector in general. Albania should establish independent and properly-staffed supervisory authorities for the banking, insurance and securities market sectors. In the postal services area the existing law of 1999 should be aligned with the EU *acquis* especially concerning the reserved postal area and the independent national regulator.

The issue of property rights (*see Section B 1.2 of this report*) has a distinct impact on the right of establishment and thus on foreign investment, and should be addressed urgently. Likewise, the question of overall socio-economic development must be addressed in order to gradually reduce the substantial level of emigration.

3.1.3. Free movement of capital

No significant developments were registered in the area of movement of capital. The regime on **capital movement** is set out in the July 2003 Regulation on foreign exchange activities, on the basis of the Law on the Bank of Albania and of the 1993 Law on Foreign Investments.

These laws provide for the liberalisation of direct investment made in Albanian companies and investments made in accordance with Albanian laws and guarantee the full repatriation of initially invested foreign capital, as well as earnings.

There are no limitations on inward direct investment except concerning purchases of real estate by foreigners, and of natural resources and historic monuments. The Albanian Law on Foreign Investment offers guarantees to all foreigners (individuals and companies) willing to engage in an economic activity in Albania. Capital outflows no longer require the authorisation of the Bank of Albania. They can be carried out through licensed banks once the required documentation has been completed (reasons for the transfers, source, amount, etc). All other categories of capital movements are restricted. A Deposit Insurance Agency has been established and is functioning properly.

Substantial progress has been made in improving the **payments systems** by introducing in July 2005 the Automated Electronic Clearing House (AECH) system. This automatic clearing service, provided by the Bank of Albania to commercial banks for processing payments to their clients, improved the national payments system by increasing speed and security and reducing costs.

Albania maintains restrictions in accordance with Article XIV of the IMF Agreement in the form of outstanding debt balances from inoperative bilateral payments agreements with a number of countries. However, in 2004, arrears with Hungary were cleared and balances with the Czech Republic, the Slovak Republic and Poland reconciled.

3.1.4. Customs and taxation

Albania has made considerable progress in some areas of **customs rules**, while progress in other areas has been more limited.

The Albanian customs administration is under the Ministry of Finance. It has a centralised structure with three organisational layers; central departments, regional directorates and customs houses at the local level.

In 2004, the Albanian Customs Administration narrowly missed the revenue target set for the fiscal year, collecting 98 % of the planned revenue. However, this result was an increase of 11 % compared to 2003. Furthermore, in January-May 2005, revenue collection reached 101% of the plan.

Corruption of customs officials is dealt with in the disciplinary Commission which has been operational since 1999. A Code of Ethics was adopted for all officials. Some measures to address the issue of corruption and other criminal activities within the customs service were taken. The disciplinary Commission handled 158 cases of violation of rules by custom officers, and 33 customs officers were prosecuted. However, further efforts are needed to prevent customs officials getting involved in illegal activities and to ensure that any criminal activities are duly prosecuted.

Some progress can be reported as regards the customs service's role in fighting organised crime, drugs and smuggling. Cooperation between customs and police was strengthened and several effective actions took place. A joint task force with the police (the Organised Crime Initiative) is now operational.

No legislative updates on rules of origin have been made since 1999; nevertheless the certification and control procedures have significantly improved in the reporting period. As regards audit procedures, the Customs administration has started to carry out post-clearance controls.

In the area of **administrative and operational capacity**, the implementation of the ASYCUDA computerised customs declaration and processing system (developed by the United Nations) has made substantial progress. The ASYCUDA system was implemented in the Tirana, Durres, Qafe Thane, Vlora, Kakavie and Kapshtice customs houses and at the customs service headquarters. More than 95% of all customs declarations are now processed automatically through ASYCUDA.

The substantial turnover of personnel observed in 2003 was reduced to only 25 members of staff in 2004. However the replacement of a number of senior customs officials in late 2005 without recourse to the appropriate procedures is a source of concern. Customs staff members are partially covered by the Civil Service Law under April 2004 amendments to the Customs Code, but further amendments are required to fully incorporate customs staff into the civil service and ensure equal salary levels. Market operators together with customs officials received training during the reporting period on various trade-related issues, such as origin of goods.

Overall, the Albanian customs administration has developed positively, in particular in the area of management of human resources, training activities, IT development, the introduction of ASYCUDA and bringing customs staff closer to civil servant status. However, smuggling remains a problem.

Albania should make further efforts to step up the fight against corruption, to provide further training in specialised fields and to upgrade the ASYCUDA system. Further alignment with the EU acquis and standards is needed in the areas of: customs and transit procedures; customs warehouses; customs valuation; physical controls and risk analysis. Albania should introduce binding tariff information and make the management of tariff quotas (currently done by fax and telephone) more efficient. Further efforts are required to deal effectively with dual-use and counterfeited goods and, and to take the necessary steps to properly implement rules of origin.

Some progress can be reported in the field of taxation.

Limited changes to VAT and excise legislation came into force in January 2005. A system of integral declaration for declaring personal incomes (replacing a withholding tax system) was introduced. The simplified profit tax rate was reduced from 4% to 3% (of the turnover) and the profit tax rate has been reduced from 25% to 23% for 2005. The procedure of annual registration of small business taxpayers has been removed and the procedures for reimbursement of the taxes have been improved. The appeal procedures for all types of taxes have been unified. During 2004 and the first half of 2005, the social and health insurance contributions collection section was transferred from the Social Insurance Institute and Health Insurance Institute to the tax administration. In addition, the Ministry of Finance presented to the government in September 2005 legal amendments on the reduction of small business taxes, which are expected to be discussed in detail by the new government. A decision on a 50% cut in small business and local taxes is expected to enter into force before the end of 2005.

Overall there have been some positive developments, but many issues still need to be addressed. A VAT and excise duty system is in place but there is a need to carry out an analysis of the legislative gap with the EU acquis. Albania should also commit to the principles of the Code of Conduct on business taxation. As a first step, it should carry out a gap analysis aimed at identifying the existing measures which could contradict those principles. The collection of revenues has significantly improved over the years. Much remains to be done, however, to improve revenue collection and to reduce the size of the grey economy, as the share of taxes in GDP is still very low. More efforts should be made to tackle the significant problem of fraud in the area of excise duties.

When approximating tax legislation with the EU acquis, Albania should also improve transparency and the exchange of information with EU Member States in order to facilitate the enforcement of measures to prevent the avoidance or evasion of taxes. In this context, the exchange of information with EU Member States could be based on the OECD model agreement to exchange information.

The administrative capacity of the tax administration has improved over the recent period and several crucial reforms have been put in place (e.g. management of human resources, training, and reform of the appeals system, etc.). The collection and control capacity, however, remains weak.

The fight against corruption also needs to be pursued and reinforced in order to achieve non-discriminatory application of tax laws.

In the field of IT, there is now a central register of all taxpayers, which is computerised, but the process of computerising all tax offices is still not completed.

3.1.5. Competition

Progress can be reported in the area of competition, and substantial progress has been made in the area of state aid.

In line with the December 2003 Law on Competition, the Competition Authority was established and the five members of the Competition Commission were elected in February 2004. The Authority is an independent institution reporting to the Parliament. It has broad powers to implement competition rules. The Authority is composed of the Competition Commission as a decision-making body and the Secretariat as an executive body. The Parliament appoints the members of the Competition Commission upon proposals by the President of the Republic, the Council of Ministers and Parliament for a term of five years. The Secretariat employs seven civil servants.

A new Department of **State Aid** was established in March 2004 within the Ministry of Economy. In April 2005, the Law on state aid was adopted. The law incorporates the principles of EU state aid rules and provides for the establishment of the State Aid Authority by 2006. Work has started on the drafting of implementing rules. The adoption of the Law on state aid is a sign of the commitment of the State Aid Department in the Ministry of Economy. The Department has increased its staff and employs seven experts. It is in the process of making an inventory of state aid. Training for staff as well as workshops for officials of other institutions involved in the granting of aid have been held. Some actions to raise awareness of the principles of state aid among businesses and local authorities have been undertaken.

Albania has taken important legislative and administrative steps in establishing structures to regulate competition and state aid. However, in a country where competition culture is still in its infancy, much more needs to be done to increase the overall understanding of the principles of competition, as a tool to protect the market and consumers' interests. The Competition Authority is substantially understaffed and has an insufficient budget. Despite progress in adopting a legislative framework, legislation in this area needs to be further improved to make competition control effective. Efforts are needed to ensure that state aid and competition issues are covered by consistent and complementary legislation and that an operationally independent State Aid Authority is established.

3.1.6. Public procurement

Very limited progress can be reported in the area of **public procurement**.

Albanian public procurement legislation, which dates from 1995, has undergone a number of changes (most recently in June 2005). The current legislation is based on definitions, basic principles, procedures, thresholds, evaluation and award criteria, publication requirements and review procedures which are fundamentally different from those of EU legislation. Moreover, there are significant gaps in areas such as regarding concessions and contracting entities operating in the field of utilities. The framework set up by the primary legislation (the Public Procurement Law) and the implementing regulations (decisions and instructions) is overly complex and, moreover, inconsistent. It is therefore difficult for procuring entities and other stakeholders to interpret, and the lack of clarity leaves procuring entities too much room for discretion. These difficulties, coupled with a general lack of awareness of the legislation on the part of small local entities and the private sector, result in poor implementation and legal uncertainty in procurement practises.

Albania's Public Procurement Agency (PPA) is very weak, with insufficient funding and staff, leading to frequent irregularities. The dividing line between its various sections (especially the Procurement and Law section, and the Control section) is not sufficiently clear and there is a lack of appropriate consultation mechanism. In addition, very little use is made of IT within Albania's public procurement system in general. In 2004, the Public Procurement Agency launched a website, but it is not regularly updated.

Still, the PPA has rejected an increasing number and proportion of requests for approval for direct tendering, with the majority of requests for approval for direct tendering (222 out of 340) being refused in 2004. When challenged, the PPA consistently defends its decisions on infringements, including administrative fines, and takes cases successfully to the Court of Appeal, in close collaboration with the Institution of the State Advocate.

Despite a reduction of the thresholds for international open tenders in January 2005, the threshold continues to be excessively high and is not compliant with EU procurement legislation. In awarding **public contracts**, procuring entities award tenders solely on the basis of lowest price, rather than using the criterion of economically most advantageous tender. In addition, there are no efficient and independent review procedures especially since there is neither an independent body for complaints, nor a provision enabling an appeal to a court after the exhaustion of the administrative procedure. There is insufficient investigation and criminal prosecution of procurement-related offences, and political influence and corruption remain significant factors.

The abovementioned issues, together with weak implementation of basic principles such as transparency, equal treatment, free competition and non-discrimination result in a procurement system that strongly discriminates against foreign bidders in favour of local ones, does not achieve the best value for money and efficiency in the procurement process and leaves room for corruption and collusion.

Very considerable further efforts will be necessary if Albania is to ensure the correct implementation of procurement rules. Significant improvements are needed in the legislation to align it with the *acquis* and to provide full coherence. Radical measures to prevent irregularities and to prosecute fraud and corruption at all levels will need to be adopted and vigorously pursued.

3.1.7. Intellectual property law

Some progress can be reported in the field of intellectual and industrial property rights (IPR).

With regard to **copyright and related rights**, Albania is a party to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Art Works, the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. Furthermore, Albania has ratified the two 1996 Treaties of the World Intellectual Property Organisation (WIPO): the WIPO Copyright Treaty and the WIPO Performances and Phonograms treaty.

The Albanian Patents and Trademark Office provides grant and protection for patents for inventions and utility models, industrial designs, trademarks and service marks, geographical indications, and topographies of integrated circuits. Enforcement of these IPRs is generally left to the owner.

In terms of Industrial Property, the Law on Industrial Property of April 1994 and the Law on Protection of Topographies of Integrated Circuits of May 1999 form partly the legal basis for IPR. However, those laws generally are not enforced and violations of copyright, trademark, and other intellectual property rights are widespread and blatant.

With regard to copyright and related rights, the Law on Copyright and Related Rights was adopted in April 2005, providing mechanisms for protecting intellectual property rights. The law entrusts the Copyrights Office with the responsibility for its implementation.

Two copyright collecting societies are licensed by the Ministry of Culture. The “Forum for the Protection of the Authors of Audio Visual Works” was created in April 2004 and is composed of 85 members including public and private television operators. This forum also cooperates with the National Council of Radio and Television, which monitors the national and local television channels. The second, named “Albautour” is intended to protect the rights of musical authors. In general, however, the collective management of copyrights still functions with difficulty.

Currently, the Legal Department of the Ministry of Culture and Youth is responsible for drafting IPR policy, establishment of the institutional infrastructure and for the implementation of the policies. The department has five members, which is insufficient to ensure appropriate enforcement of the policies. The Albanian Office for Copyright has not yet been established, although it is provided for in the new copyright law and planned for 2006; regional copyright offices are planned for 2007-2008.

Some progress can be reported on raising awareness amongst the business community and law enforcement bodies of IPR issues. In the reporting period, tax inspectors have surveyed 40 market operators, with legal actions being taken against 18 of them. As a result, several market operators signed contracts with the authors and paid them fees. Some authors have reportedly won court cases protecting their rights.

A Memorandum of Understanding was signed in July 2004 between the Albanian institutions involved in the protection of IPR, namely the Ministry of Culture and Youth, Ministry of Finance, Ministry of Justice, National Council of Radio and Television and two copyright associations.

With regard to **enforcement**, the School of Magistrates has organised some training for judges on IPR matters, but there are no specialised courts for dealing with IPR-related cases and there is a lack of judges who are qualified to deal with IPR matters.

Overall, some progress in the field of legislation, international agreements and awareness on intellectual property rights can be reported. However, further efforts are needed in order to put in place the institutional and administrative capacity to implement the overall legal framework in this area. For further progress in the area it is crucial to establish a Copyright Office and make it operational. Much more progress is needed in increasing awareness on IPR issues amongst the business community and law enforcement bodies, including the judiciary. Enforcement campaigns against piracy and counterfeiting should also be intensified.

3.1.8 Statistics

Albania has made some progress in the area of **statistical infrastructure**.

The Law on Official Statistics was approved by the Parliament on 5 February 2004 and it is compliant with the UN fundamental principles and European standards. The five-year programme of official statistics for the period 2005 – 2009 is a major tool for the definition and coordination of the national statistical system with INSTAT playing a central role. However, INSTAT needs to strengthen the statistical infrastructure, including the local offices and to enhance co-operation with other producers of official statistics.

The bulk of the major **classifications** are in place and comply with EU standards. In spite of the progress achieved, some of the classifications like Prodcom, NUTS, ICD-10 and WTO classification of Tourism Statistics still need to be implemented.

With regard to **sector statistics**, no significant progress has been made in regional, demographic and social statistics. The Civil Registration Offices need to increase the capacity and create incentives for registration of all demographic events, and a population register must be established. Many areas of social statistics need further improvement.

As for macro-economic statistics, the conceptual framework reference is the UN system of national accounts. GDP data for the period 1996-2002 were published in September 2004. The basic principles of the Albanian consumer price index are in broad compliance with ILO recommendations. INSTAT takes part in the European Comparison Programme for providing GDP data in PPPs. Further progress needs to be achieved in areas like the exhaustiveness of GDP, expression of GDP by type of final expenditure or flash and quarterly estimates of GDP. The weighting structure of the consumer price index needs to be modified.

Concerning business statistics, the statistical business register is being established. A quarterly business survey following the EU regulation on short-term statistics was introduced during the reporting period. The structural business survey conducted by INSTAT follows the EU standards to a certain extent. However, business statistics should be further developed and improved for short-term statistics and structural statistics and the statistical business register needs to be extended to cover all units as defined in the Regulation.

As regards foreign trade statistics, in 2004 the customs administration implemented the ASYCUDA computerised customs declaration and processing system, which facilitated the collection of data. There is a good cooperation between INSTAT and the customs administration on the compilation and publication of foreign trade statistics. Data are delivered to Eurostat on a regular basis. Concerning agriculture statistics, INSTAT created a farm register on the basis of the 1998 and 2001 censuses. Work on compiling agriculture statistics has started within a twinning project. INSTAT and the Ministry of Agriculture should conclude the memorandum of understanding that is currently being prepared to map out their future cooperation in the field of agricultural statistics. Albania should now reinforce the collection and processing of agricultural statistics in line with EU standards and methodology.

Overall, Albania has made moderate progress during the past period. The Albanian statistical system is progressing towards compliance with certain EU standards. There are, however, many areas which still need to be harmonized. Further progress has to be made in the development of the national accounts and in extending the statistical business register and establishing the population register. Improvements should also be made in macroeconomic, social and agricultural statistics.

3.2 Sectoral policies

3.2.1. Industry and SME

Only limited progress can be reported with regard to SME policy and in the area of industrial policy.

The private sector, including commercial farming, accounts for 75% of Albania's GDP and employs roughly 60 % of the labour force. Albania's SME Agency set up a national training programme to boost the competitiveness of SMEs in June 2004, and its implementation continued in 2005. The programme was presented at the European SME Charter conference held by the Luxembourg presidency in June 2005.

With regard to the **business environment**, there has been some progress in reforming taxation, with the abolition of annual taxpayer registration for small businesses and the improvement of procedures for the reimbursement of taxes. In addition there is at present no obligation for companies in general to produce annual reports on their operations.

Following a study by FIAS (Foreign Investment Advisory Service of the International Finance Corporation/World Bank) in March 2005 identifying the main administrative barriers to companies and investors, an action plan was drafted and a task force set up. FIAS is currently assessing the reform process so far. A positive development has been the inclusion of business representatives in the creation of the action plan for removing administrative barriers, and FIAS's report will provide recommendations for the next stage of reforms in the sector. The industrial sector continues to experience difficulty, having inherited damaged industrial assets and outdated capacities. Its share of GDP declined from 10.2% in 2003 to 9.9% in 2004. However, in 2004-2005 five new clusters in the fields of meat processing, herbs and spices, leather, media and the tourism industry showed promise. Substantial investment is needed to develop the sector, so improvements are only likely in the medium-to-long term.

Although **the process of restructuring and privatisation** of enterprises has somewhat accelerated investments in the industrial sector, a number of recently initiated privatisation deals have failed (the ARMO oil refinery, the Servcom oil distribution company and Albtelecom, the Albanian telecommunications company). The Albanian electricity company KESH is undergoing substantial restructuring.

In the area of **SME** policy, progress on the implementation of the European Charter for Small Enterprises remains slow.

Overall, a limited number of positive steps have been taken on taxation and administrative barriers. However, major further steps are needed in order to improve the business environment. Albania should ensure the timely development of new legislation to make company registration cheaper and easier; at present, registration is only possible in Tirana and is administered by only three people. Albania should also improve procedures for obtaining licences, permits and certificates, which are currently complex, costly and often open to favouritism. In addition Albania should introduce disclosure and financial reporting standards in line with EU standards and ensure their effective enforcement.

Measures are required to improve transparency and prevent discrimination in the field of taxation if Albania is to move away from a cash economy. Provisions whereby entrepreneurs are liable to pay corporate income taxes in advance from the moment of company registration should be closely examined, and timely steps should be undertaken to implement the government's April 2005 action plan to address the informal economy, following the OECD's study on the subject. Albania should make further progress on the development of a web portal for SMEs, as proposed by the Albanian SME Agency, and take steps to adopt an e-signature law, set up procedures to assess the impact on businesses of planned new regulatory measures, and accelerate the setting up of a national guarantee fund to facilitate credit to SME (a key SME charter goal). Albania should improve the financial sustainability of the SME Agency and implement the national training programme for SMEs.

Albania should take steps to establish further business incubators: only two exist at present. These fall under the responsibility of the Ministry of Labour rather than the Ministry of Economy, despite the OECD's advice in 2003 to transfer responsibilities. The government has taken first steps to initiate the dialogue between the business community and the government. However, the capacity of the Business Advisory Council, and in particular its Secretariat, to act as an effective channel for this dialogue should be strengthened. In addition Albania should examine feasibility for a business/technology park in Albania and consider the increased use of research and innovation policy for the support and realisation of the economic reform and capacity building, as required under the Stabilisation and Association Agreement.

More general problems relating to the business environment which Albania must urgently address include slow property registration, restitution and compensation, corruption (*wise also Sections B.1.1 and B.1.2*) and also poor infrastructure.

3.2.2. Agriculture and fisheries

Albania has made little progress in the area of agriculture and fisheries.

The **agriculture** sector accounted for about a quarter of GDP in 2004 and approximately half the population make their living from agriculture, mainly in small subsistence farms. The contribution of agriculture to GDP increased slightly in 2004, mostly through traditional food-processing sectors such as olive oil, meat, dairy products, flour, wine and beer. However, the role of domestic industry in promoting agricultural growth remains small, since most of the raw materials for processing, such as wheat, barley and meat, are imported. In 2004, investment in the food processing industry increased by 10%, mainly in the areas of milk, fruit and mineral water. Albania now needs to prepare a programme for upgrading food processing establishments to meet EU requirements.

Albania should develop strategies on land use, the land market, rural development, diversification of farm activities and enhancing agricultural competitiveness. It is also necessary to improve distribution channels and to establish adequate produce storage facilities. Progress in these areas could contribute towards improving final product quality and increasing competitiveness. Many aspects of the above involve costs for farmers. In this context, access to credit is important for further development in the sector. Clear and well-established legal title to land is vital for progress in this sector: Albania needs to proceed more rapidly with the process of land registration, restitution and compensation (*see also section B.1.2*).

Albania's trade with neighbouring countries with which it has free trade agreements has increased. Exports increased more than imports and, although the trade balance remains negative, the free trade agreements are expected to have a positive effect on the economy and on the re-orientation of the production structure, including agriculture and fisheries, in the medium-to-long term. Little progress can be reported in the area of food safety. Albania has introduced new regulations on food colourings and milk storage, but in order for the food safety system as a whole to become effective, it should be restructured and control systems strengthened. Albania also needs to tackle unfair competition in the domestic market generated by counterfeit, expired and low-quality products. Limited progress has been made in the veterinary and phytosanitary areas. In November 2004, the Albanian Parliament approved a new law on veterinary services, regulating the distribution of veterinary funds, eliminating some barriers to the trade in live animals and introducing a professional body, the Order of Veterinarians. Albania should step up efforts to align its legislation with the EU veterinary and phytosanitary acquis and align the system of animal identification and registration for bovines, sheep and goats with EU requirements. Measures should be taken to bring Albanian products up to EU health standards, in particular regarding bivalve molluscs and other fishery products. The control structures should be strengthened. Albania should clarify competences and raise staffing levels in its veterinary service, and its laboratories should be upgraded and equipped, in particular the Veterinary Research Institute. Certification schemes have been set up for the planting material of certain fruit plants, but Albania needs to ensure the efficient control of domestic plant production in general, in particular for products with EU-specific requirements and to set up analytical capacity in the phytosanitary sector.

The relevant Albanian administrations should move closer to European standards in the area of the Common **Fisheries** Policy, in particular in the fields of resource management, inspection and control, and market and structural policies. In the absence of any tangible progress in this policy area in the past four years, apart from questions related to tariffs, a more determined effort is needed.

3.2.3 Environment

Albania has made limited progress in the field of environment.

Regarding **horizontal legislation**, a law on Environmental Impact Assessment (EIA) was adopted on 23 January 2003 and is now in force. Albania ratified the Kyoto Protocol in December 2004.

As regards **air quality**, air monitoring data in main urban areas show that air pollution has not been controlled or reduced. In December 2004 the Ministry of Environment developed common guidelines with the Ministry of Transport on control and permissible levels of air pollutants from vehicles.

In the field of **waste management**, Albania adopted a law to approve amendments to the Basel Convention on the control of transboundary movements of hazardous substances in October 2004 and a law on classifying waste in February 2005. Concerning waste hot-spots, the Ministry of Environment has completed a feasibility study on tackling problems at the contaminated former industrial site of Porto Romano near Durres where the pollution is directly affecting the health of the population, which is also suffering from a lack of water supply and sewage systems. Technical work to address the problems of the former PVC factory site in Vlore has also begun. Work continues with EU assistance on the elimination of

pollution from the ammonia plant in Fier (arsenic disposal) and Ballshi oil refinery (oil pollution).

Waste management should be strengthened and action should be taken on the two hot-spots that continue to generate pollution, namely Sharra solid waste landfill near Tirana and the oil extraction area of Patos-Marinez.

Water quality is poor, and leakages and illegal connections are frequent. Around 80% of the urban population has access to running water, but water supply and sanitation systems remain outdated. Households have running water on average for twelve hours a day in urban areas, and for approximately half of that time in rural areas. As regards sewage, progress is limited: only about 40% of the urban population has a sewage connection, and sewage treatment continues to be virtually non-existent. Some improvements have been made. Losses in water distribution systems have been reduced by 6% since 2001, while revenues increased by 9% for the same period. In December 2004, the collection rate reached 75%. Many enterprises have achieved a collection rate of 75% and some as high as 97%.

Decentralisation and privatisation in the water sector continues. During the reporting period, some positive steps have been taken under the National Water and Sanitation Strategy to improve management of water resources, including the introduction of bulk water metering, the setting up of a computerised billing and collection system, the transfer of responsibility for tariff-setting to local government authorities (as of March 2005) and the establishment of a separate department within the General Directorate of Water and Sewerage to deal with drinking water and sanitation issues in rural areas. In March 2005, Albania passed a law on norms relating to effluent discharges, according to which no business which discharges wastewater effluents will be issued with a permit to operate unless it installs a water purification facility.

Despite the positive trends outlined above, water supply remains a problem in Albania. Albania should focus on developing its water management strategy, including approximation with European standards, determining investment needs, and improving ministerial and local authority capacity to manage water and sewage issues. Concerning **nature protection**, in October 2004 Albania adopted a law making the Vjose-Narte wetlands a protected area and in February 2005 it passed a law establishing management committees for protected areas.

Concerning **chemicals and genetically modified organisms (GMOs)** Albania ratified the Stockholm Convention on Persistent Organic Pollutants in July 2004 and the Cartagena Protocol in September 2004.

Overall, however, despite legislative developments including signature and ratification of international conventions and some practical improvements in the environment sector, particularly regarding water, significant issues remain to be addressed.

Administrative capacity in the field of environment continues to be weak. Albania should strengthen the capacity of the Ministry of Environment, which is very weak both at national and at local level. The implementation of environmental legislation remains problematic and integration of the environmental policies into other policy areas is inadequate. Collection of fines inflicted upon transgressors of environmental legislation is limited and fine levels are not sufficient to be dissuasive. Eco-taxes continue to be collected and used by the state budget. Collection of environmental data is insufficient and not well organised. Albania should adopt a clear strategy to further align environmental legislation with European

standards, and properly implement existing legislation i.a. regarding environmental impact assessment. The Ministry of Environment should also strengthen its co-ordination with other ministries and with local government and take steps to integrate environmental protection into other policies. Although NGO participation in environmental decision-making is increasing, public participation in the decision-making process should be further strengthened.

3.2.4. Transport policy

Some progress can be reported in the transport sector.

The EU-supported Albanian national transport plan was approved by the Ministry of Transport and Telecommunications in May 2005 and provides guidelines on sector development, proposes improvements for better policymaking and strategic planning of investment priorities which can help target the support by the international financial institutions. As regards transport infrastructure, Albania's main priorities remain the completion of the East-West corridor (Durrës-Varna, via Tirana and Sofia) and North-South axis (connecting Greece to Montenegro), as well as the Durrës-Kukës-Morinë axis, linking Kosovo with Durrës and the Adriatic. The majority of the national resources allocated to transport have been used to buy land for road construction and maintenance. In general the transport infrastructure is poor and because of insufficient maintenance and illegal road connections even new investments deteriorate fast. The General Roads Directorate should put in place the planned road asset management system as soon as possible. At regional level, to ensure its proper connection to the **trans-European transport network**, Albania is participating actively as vice-chair of the Steering Committee in implementing the June 2004 Memorandum of Understanding on the South East Europe Core Regional Transport Network including the Transport Observatory (SEETO). Albania also participated in the High Level Group on the extension of the major trans-European transport axes to the neighbouring countries and regions established in 2004.

In the area of **road transport**, Albania ratified in September 2004 the European Agreement concerning the international carriage of dangerous goods. It also ratified the Agreement on the international carriage of perishable foodstuffs in October 2004 and the INTERBUS agreement on international occasional carriage of passengers by coach and bus in November 2004. The government approved in November 2004 a programme to improve road safety conditions, including elimination of black spots and provision of specialised equipment for road traffic police. Albania should now implement this plan and address the high incidence of serious road accidents by means of improved signalling, traffic education for drivers and pedestrians and measures preventing illegal constructions along new roads. It should also take steps to align its legislation with the EU acquis concerning weights and dimensions of vehicles, roadworthiness tests, technical roadside inspections, drivers' licences and vehicle registration

Developments in the sector of **rail transport** continue to cause concern. The Albanian government should take measures without delay to reform the Albanian railways, HSH, and reduce its unsustainable annual losses. A report on the modernisation of the HSH and the national transport plan both recommend temporarily scaling down the operation of the rail system until it comes closer to economic viability, and developing a business plan for HSH including significant reorganisation. Nonetheless, the government has continued to invest in the railway system without a sound policy based on economic indicators. In this context, it is unfortunate that Albania has approved an unsolicited proposal – still awaiting ratification by the Albanian Parliament - to upgrade the rail service between Tirana and Durrës and construct

a link to Mother Teresa/Rinas Airport, disregarding the warnings of the World Bank, the International Monetary Fund and the European Union on several aspects of the plan, notably procurement, economic viability and debt sustainability.

Some progress has been made in the **air transport sector**. In December 2004, the Albanian government approved in December 2004 the new Air Code, although it has not yet been approved by parliament. Albania should ensure that the draft Air Code is amended in line with the EU aviation acquis in view of the European Common Aviation Area (ECAA). Civil Aviation Code is updated to bring legislation closer to the European standards. In March 2005, Albania initialled a “Horizontal Agreement” with the European Community on certain aspects of air services. Albania is pursuing negotiations on a European Common Aviation Area Agreement with the EU. A programme for incorporating EU aviation legislation is underway. The recommendations of the July 2005 ECAA Assessment Visit should be implemented.

Tirana Airport Partners signed a concession agreement for the operation of the Tirana Airport (Mother Teresa/Rinas Airport) in April 2004. The construction of new airport infrastructure, including a new access road from the Tirana-Durres highway, is due to start in 2005.

In the **area of maritime transport** the detention rate of Albanian ships for 2004 was 31.43 %, making it the worst performing flag among the very high risk flags of the Black List published by the Paris MoU. The maritime safety situation seems to be improving somewhat in 2005, but the detention rate remains at an alarming level (22.9% in the first 9 months). Strong efforts and a clear plan covering legislative alignment, administrative organisation and management, personnel training and infrastructure will therefore be necessary.

As for the legislative developments a new maritime code was enacted in July 2004, enabling the establishment of a new National Maritime Transport Agency. However, Albania should undertake follow-up work to define in detail how the code is to be applied and, in particular, how the new agency should relate to the General Maritime Directorate in the Ministry of Transport and Telecommunications. Albania also completed, in March 2005, the procedures for compliance with the international maritime organisation SOLAS ISPS code on security. In November 2004 Albania adopted a law on the implementation of these security requirements for ships and port facilities.

As regards the privatisation of port operations, some progress has been made, especially regarding the port of Durres. Under the October 2003 Port Authority Law the ports are managed according to commercial rules under the direction and control of a supervisory board. However, they are still entirely state-owned, and the autonomy of the Port of Durres Authority is undermined by its over-dependence on several ministries. Albania aims to progressively privatise port operations, with the port authorities acting as landlord. In line with the Port Authority Law, the Port of Durres Authority and Maritime Department have prepared an action plan to complete the necessary implementing legislation. In Durres, a number of port operations such as towage, pilotage, water supply to ships, trucking, cleaning, food services and stevedoring have been privatised, with further maintenance privatisation expected by the end of 2005. A concession on the grain terminal has been initiated. Improvements of port infrastructure, notably in the Durres and Vlora, are continuing.

Overall, despite some progress in the transport sector, further action and prudent investment over time are needed in order to improve the sector in a sustainable manner. Albania must ensure the implementation of the national transport plan. Further efforts are needed to bring

transport legislation closer to European standards, notably as regards technical and safety standards and market liberalisation. The government should also undertake the necessary reform of the railway sector. Maintenance of transport assets should be well planned and provided for in the annual budget. Public procurement procedures should be applied systematically for large investments as a matter of good governance and as a means to achieve sound public expenditure. More effort is also needed to improve traffic safety.

3.2.5. Energy

Albania has made good progress in the area of energy, although the recent energy crisis has not yet been overcome.

The regulatory authority, ERE, is actively producing a modern legislative framework based on the 2003 energy sector law, and good progress has been made in aligning with European standards, in particular as regards energy efficiency. The ERE is financed exclusively through fees; its board members are appointed by parliament without government involvement.

The government has continued to implement the regularly revised 2003 action plan for the implementation of the national energy strategy, adopting a number of measures to restructure and liberalise the Albanian energy sector and to integrate it into the emerging South East European energy market. The action plan also provides for the use of alternative fuels and energy saving, the construction of a new thermal power plant in Vlora and the continued use of hydroelectric power production. The selected site of the planned thermal power plant in Vlorë has led to concerns regarding environmental impacts and economic viability, and should be reconsidered. 98% of Albania's generation derives from hydroelectric sources. Economic growth has led to increasing demand.

The unbundling of state-owned electricity utility, KESH, has begun, albeit not fully in line with the EU market model, which Albania intends to adopt by 2008. A division of KESH's assets has taken place, as well as some restructuring, with the division of the company into three operating units: generation, transmission and distribution. Privatisation of the generation assets, refinery, and service providers is under preparation. A single public wholesale buyer will continue to exist for the time being, and the transmission system operator remains under public ownership.

Electricity losses have been reduced from 39% in 2003 to 36% in 2004. Electricity production has increased significantly thanks to a favourable hydrological situation, but power cuts continue to occur. Revenue collection has increased slightly from 92% to 94% in 2004, but the collection of revenues in some parts of the country remains deficient. KESH is moving in the direction of sustainability: government subsidies to KESH were reduced in the reporting period and stopped in January 2005. Prices have been raised for households (10% annually) and other consumers (5%) to more closely reflect costs, while vulnerable consumers (191 000 or one quarter of all households) have been receiving direct subsidies from the government since January 2005. Individual meters have been installed in over 200 000 households.

Efforts to introduce lower-priced liquefied petroleum gas more widely, in particular to replace electric space heating, now seem to be gaining wider acceptance among the population, which formerly had safety worries due to the obsolete appliances used.

Albania has played an active role in the establishment of the Energy Community Treaty for South East Europe, especially during its presidency of the Athens Process between January

and June 2004, when the treaty negotiations started. The treaty is aimed at creating a regionally integrated energy market for electricity and natural gas as part of the wider EU market. It was initialled on 13 May 2005 and recently signed.

Overall, Albania has made good progress, but the crisis in the energy sector has not yet been overcome. Households and companies continue to suffer frequent power cuts. Electricity losses and illegal connections are still high, and also collection rates need to be further improved. Thus, continued and successful implementation of Albania's energy action plan and strategy is needed. Administrative capacities need to be further strengthened.

3.2.6. Information society and media

Albania has made some progress in the sector of information society and media.

The Ministry of Transport and Telecommunications and the Telecommunications Regulatory Entity (TRE) have amended the 2000 Telecommunications Law, leading to the full liberalisation of Albania's telecommunication sector on 1 January 2005. The final step was the abolition of the monopoly on international connections in line with Albania's WTO commitments, although by mid-2005 no applications for international connection licences had been received. Albania has over 50 active rural operators (with a relatively limited number of subscribers in total) and three licensed mobile telephony operators, two of which are active in the market. Since last year's report there have been decisions from the TRE regarding the designation of Albtelecom and the two mobile operators as operators with significant market power and regarding interconnection agreements. The aim of these decisions, through which the TRE implemented the national legislative provisions, is to be able to impose obligations on SMP-operators and to allow a more homogeneous approach in the interconnection agreements between operators. However, the decisions were generally poorly received by the market players and it appears that these decisions have not necessarily improved the situation for new operators.

The electronic communications sector has improved in terms of both distribution and the rate of information distributed, although in remote areas there are still weak spots. This growth has resulted from increased investment in the fixed-line telephone system as well as from the growing mobile market. The number of mobile users continued to increase in 2004 and, according to the mobile operators, 80% of Albania's territory - corresponding to 90% of the total population - is now covered by the service. Prices for telephony remain well above the EU average.

In September 2004, the Ministry of Economy published a letter of intent to sell Albtelecom, and its board of directors contacted operators from several EU member states, providing details about the company and the government's plans. Despite these efforts, only one company presented an offer. The sale agreement was signed between the Ministry of Economy and that company, but in October 2005 the parliament rejected the ratification of the privatisation contract.

Albania has made progress in the liberalisation and technical improvement of the electronic communications sector. However, in order to attract further investment to the sector, Albania now needs to ensure that the required legislation is complete, that it creates no barriers to market entry, and that it is implemented.

New or amended legislation is required to take account of the currently applicable regulatory framework in the EU. Albania should strengthen the role and capacity of the TRE to allow it to implement the applicable legislation in an independent, transparent and non-discriminatory manner. A clear appeals system, with sound and knowledgeable judicial actors, should be established. The legislative gap regarding regulation in urban areas, creating a situation where providers may only operate at national or at rural level, should be addressed.

In order to achieve a competitive market for fixed telephony, the tariffs of the incumbent fixed line operator should be fully rebalanced and the right to select a carrier, number portability and unbundled local access should be put in place.

In the area of information society services, Albania has signed and ratified the Council of Europe Convention on Cybercrime, but needs to align its legislation with the *acquis* on electronic commerce and conditional access services.

There is some progress to report in the field of audiovisual policy. The rejection of the draft law on digital broadcasting was a positive step, since it contained amendments which, if adopted, could have created a monopoly situation. Albania should now take appropriate steps to adopt legislation on digital services and electronic media in line with European standards and start the process of aligning its legislation with the European Convention on Transfrontier Television and the Television without Frontiers Directive. Moreover, Albanian authorities should resume discussions on the draft strategy for the development of television broadcasting and finalise the National Plan for Radio and Television. Albania should also continue to reinforce the administrative capacity of the National Council on Radio and Television so that it can appropriately monitor and solve the problems regarding the collection of broadcasting fees from some private broadcasters, whilst avoiding any discrimination among broadcasters.

There is also a need to improve the implementation of the Freedom of Information Act and to ensure compliance with the Law on Copyright by fighting widespread piracy.

Overall there has been some progress in electronic communications and information technologies, but a lot remains to be done in the respective legislative framework to align it with the EU *acquis* and to ensure its proper and non-discriminatory implementation. Albania should also examine ways of improving privatisation procedures to allow the successful privatisation of Albtelecom.

3.2.7 Financial Control

Albania has made some progress in the area of **Public Internal Financial Control (PIFC)**.

The Ministry of Finance has embarked on a strategy to develop a Public Internal Financial Control (PIFC) system in accordance with the international standards. It has developed a PIFC Policy paper and an Action Plan, approved in June 2005 by the Inter-ministerial Committee of Economic Policy and the Council of Ministers. The Policy Paper sets out the main principles of managerial accountability and functionally independent internal audit in the public sector, but it would benefit from further development. The inspection function should be clearly defined as separate from other control and internal audit functions. The Ministry of Finance should start drafting PIFC-related legislation in a comprehensive framework while assuring a broad consensus amongst major stakeholders. In this framework, the current relevant legislation should be amended in a coherent manner.

Albania should establish a central unit responsible for the introduction of financial management and control systems into the public administration. This should be done by creating two independent central bodies, one for internal audit, the other for internal financial control. These bodies should be close to one another, but mutually independent.

In May 2005, the Ministry of Finance adopted a qualification programme and regulation for certification of internal auditors in the public sector. The Ministry should continue its training programmes for budget chapter managers, financial officers and internal auditors.

In the field of **external audit**, the Supreme Audit Institution of Albania should be improved in line with the International Organisation of Supreme Audit Institutions (INTOSA)I guidelines, and its financial independence should be ensured.

3.2.8 Other policies

Progress with regard to **employment** and **social policy** is part of the work towards European standards. Further efforts to establish economic and social rights as well as to promote employment and encourage social dialogue will contribute to improving governance and economic performance.

3.3 Justice, freedom and security

3.3.1. *Visa, border control, asylum and migration*

Albania has made some progress in the areas of visas, asylum and migration, and considerable progress in border management.

Albania has liberalised its **visa** regime for the new EU member states since June 2003, with the exception so far of Malta and Cyprus. Reciprocity is applied regarding the visa regime between Albania and other Western Balkan countries, with the exception of Croatia, whose citizens do not require a visa to enter Albania, whereas Albanian citizens do require a visa to enter Croatia. New ten-year passports containing security features are in use for Albanian citizens. The old five-year passports remain in use until their expiry date. Amendments to the Law on Foreigners, which aims to increase compliance with EU standards especially in the field of visa policy, were put before the Parliamentary Commission of Laws in early 2004 and should be adopted without delay by parliament. Amendments should be introduced to existing legislation to provide for the issuance of travel documents in accordance with international standards and a centralized IT network and database connected with Albanian consular offices abroad for the administration of visas should be established as soon as possible. Until this has been done, the practice of issuing visas at border crossing points remains a concern.

Albania has made considerable progress in upgrading **border control** and surveillance in the framework of its 2003 “Strategy on Border Control and Its Integrated Management 2003-2006”. Management was improved thanks to a restructuring which took place in October 2004. Immigration controls at border crossing points have been improved through the upgrading of IT networks and the availability of document examination devices at all main border crossings. The introduction of mobile surveillance units has made control of green borders more effective, particularly in combating trafficking of human beings and drugs. Albania has taken steps, in the framework of existing agreements, to strengthen the cooperation with its neighbours in the fight against cross border crime, which has led to a reduction in the estimated volume of illegal migration and trafficking towards the EU through the Adriatic and Ionian seas. Nonetheless, trafficking through Albania’s borders with its Western Balkan neighbours, as well as illegal migration to Greece, remain problematic. Further financial and human resources should be focused on addressing this problem, and Albania should take steps to ensure effective coordination amongst the services operating on the border. In particular, it should clarify the division of responsibilities between Border Police and Customs Service for border controls. These co-ordination issues should be addressed as part of developing an Integrated Border Management (IBM) Strategy in accordance with the EU Guidelines for the Western Balkans. Such a strategy should also provide for a comprehensive and effective IT system allowing police and border services to be informed rapidly of stolen passports or visa stickers and to register persons transiting the country.

A national strategy on **migration** was adopted in November 2004, and the related action plan approved in May 2005. The implementation of the strategy is to be overseen by a Minister of State. In March 2005, Albania ratified the ILO Migration for Employment Convention. Albania has not joined the European Convention on the Legal Status of Migrant Workers.

The signature of an EU-Albania readmission agreement in April 2005 showed Albania’s increased willingness to accept its international responsibilities in this area and provided a

framework for bilateral agreements with EU Member States. Albania currently has readmission agreements with Italy, Belgium, Hungary, Switzerland, Bulgaria, Romania, Croatia, Germany and the United Kingdom. Bilateral agreements with the Netherlands, Luxembourg, the former Yugoslav Republic of Macedonia, Moldova and the Slovak Republic are in preparation. There are as yet no agreements with Bosnia and Herzegovina or Serbia and Montenegro. Albania should conclude readmission agreements not only with its regional neighbours but also with the countries of origin of migrants transiting the country.

Management of **asylum** cases by the Directorate for Refugees within the Ministry of Public Order has begun to improve, in part as a result of legislative amendments, particularly regarding procedures for ensuring observance of time limits in processing asylum cases and the production and dissemination of proper notification. This directorate also updated the 2003 National Action Plan on Asylum in February 2005. Implementing legislation should be adopted as regards managing and providing for asylum seekers. Some legislative adjustment is also required: inconsistencies between the Law on Asylum and the Law on Foreigners should be removed. Albania should also focus sufficient administrative and financial capacity on implementing existing legislation and, in particular, its action plans for asylum and for migration.

3.3.2. Money laundering

Albania has made some progress in the fight against money laundering, but major efforts are still needed.

The 2003 anti-money laundering legislation was reinforced by new implementing measures during 2004, although the fact that the handling of stolen goods is not a criminal offence remains a concern. More transactions are now reportable to the appropriate authorities, and non-banking institutions such as casinos have been included in the reporting requirements.

A National Committee for the Coordination of the Fight Against Money Laundering, chaired by the Prime Minister and involving the Bank of Albania, the General Prosecutor, the State Intelligence Service, and the Ministers of Finance, Public Order, Defence and Justice, met for the first time in March 2004. In parallel, a technical working group consisting of representatives of the Ministry of Finance's Financial Intelligence Unit (FIU), the intelligence service and the prosecutor's office was established in March 2004. In the area of international co-operation, an agreement on money laundering was signed with the former Yugoslav Republic of Macedonia in January 2004, adding to those already in place with Slovenia and Bulgaria.

Following a decision in February 2005, the FIU has been given more staff and, together with the prosecutor's offices and the Economic Crime Unit of the Albanian State Police, is now dealing with a first series of cases.

Legislative progress should be maintained, administrative capacity should be further strengthened and this should be followed up by effective implementation. In particular, Albania should ensure that its anti-money laundering legislation keeps pace with the developing acquis. Albania should continue its work on drafting amendments to the current Law on the Prevention of Money Laundering in order to ensure that it is in line with European standards, including the recommendations of the Financial Action Task Force.

The supervisors of reporting entities, the FIU, the prosecutor's offices and the police Economic Crime Unit should be provided with appropriate financial and IT resources, and the operational independence of the FIU from the Ministry of Finance should be more clearly established. Working-level coordination between agencies should be improved. This should be complemented by further improved co-operation with the authorities of other countries, in particular through more active use of the Regional Financial Intelligence Network.

Urgent efforts should be made to enhance the enforcement of anti-money laundering legislation in terms of convictions, confiscations, seizures and the freezing of assets. To date, there have been no prosecutions for non-compliance with reporting rules. Proper enforcement of reporting obligations should begin urgently. Among other aspects, the current relatively high threshold for making a transaction reportable on a mandatory basis should be examined. The widening of the scope of anti-money laundering legislation beyond banking should be matched by better enforcement in the other sectors.

Effective enforcement of legislation in this area is also frustrated both by corruption, by organised crime and by the large informal economy with its high level of cash transactions. It is important to have a properly enforced cash control mechanism in place. Albania's success in dealing with money laundering is thus clearly linked to progress on the broader issues of corruption, organised crime and economic development. Albania should examine ways to facilitate the transfer of remittances from abroad, which could also help to gradually reduce the level of cash circulating in the country and thus limit scope for money laundering.

3.3.3. Drugs

Albania has made some progress in the fight against the illegal drugs trade, but further efforts need to be made.

Albania continues to be a major transit country for drug trafficking, as well as having a growing addiction problem domestically.

Adequate legislation on drug trafficking is in place, laying down harsh prison sentences for those convicted. Albania approved a National Anti-Drug Strategy for the period 2004-2010 in May 2004, and a related action plan in September 2004. It should be ensured that these are in line with the EU Drugs Strategy for 2005-2012 and the EU Drugs Action Plan for 2005-2008. Albania should now improve its capacity to undertake effective anti-drug investigations, by improving the training, management and equipment of police officers involved in the fight against drugs, in particular in the Department for the Fight Against Drugs, but also in other police directorates.

There has been some success in combating the cultivation and trafficking of cannabis. In the framework of the national strategy, an agreement on banning cannabis cultivation in Albania was signed between the Ministry of Public Order, the Ministry of Local Government and Decentralisation and the Ministry of Agriculture and Food in April 2005.. Since then, a number of seizures and crop destructions have taken place. The use of special investigative means (SIMs) such as controlled delivery and simulated purchase by the police was legally introduced in September 2004 and training has been conducted in such techniques. Legislation to seize the assets of convicted traffickers has been introduced. An agreement was also signed between the Ministry of Public Order and Ministry of Health on tightening the control of sedatives and narcotics used for medical purposes.

Significant progress has been recorded in the number of seizures of illegal drugs, particularly heroin, with more heroin seized in 2004 (240.6 kg) than in the previous three years combined (190.9 kg).

Whilst seizures have increased, the amounts seized are small compared with the quantities which appear to be passing through the country to the EU. Albania should give much greater priority and funding to the effective implementation of the National Anti-Drug Strategy and the related action plan. Albania should continue in its efforts to tackle domestic cannabis production, make concerted efforts to increase enforcement of the law against heroin and cocaine trafficking, and take steps to identify the scale and nature of domestic synthetic drug production and international trade in such drugs.

Albania should make further concerted efforts to prevent the obstruction of investigations by identifying and prosecuting those responsible for corruption related to the drugs trade at all levels in its public administration, and in particular in the police and the judiciary. Albania should take steps to ensure better co-ordination both domestically and with partners in other countries for the purposes of dismantling drug networks.

The Albanian authorities should ensure greater transparency in seizure figures, and take measures to dispose properly of the large quantities of drugs seized in past cases which are currently in inadequate storage.

3.3.4. Police

There has been some progress in enhancing the effectiveness of the Albanian State Police (ASP) during the reporting period.

The Albanian State Police was completely reorganised following an administrative decision of September 2004, which entered into force in October 2004. Key elements of the restructuring were the creation of a fully-fledged Organised Crime Directorate and the strengthening of the Internal Control Office. The new organisational structure of the police is more in line with those of EU law enforcement agencies. It will now have to prove its operational effectiveness.

Significant progress has been made in the fight against corruption within the police, following the launch in early 2004 of the “Order within Order” reform and the adoption of several legal amendments aimed at enhancing the internal control powers of the police. These measures have resulted in the dismissal of a large number police officers (304 during the reporting period) and in a dramatic increase in the number of criminal proceedings against police officers brought by the police to the prosecutor’s office (323 in 2004 compared to 190 in 2003), one third of which involved high- or middle-ranking officials.

Albania must make renewed efforts to improve the management of the police, in particular as regards human resources and transparency, in order to make further progress towards European standards. The police should also be given the power to manage independently its financial and material resources, which are currently controlled by the Ministry of Public Order, in order to enhance its autonomy and to minimise the risk of political interference. The police should also ensure the full implementation of the law on ranks. The question of succession planning for key posts should be addressed more effectively in order to ensure the continuity and effectiveness of the reform process. Albania should continue to improve the administration of police records, including access to records by middle management.

Albania should continue to examine the 1999 State Police law with a view to updating it in order to better meet Albania's needs. Albania should speed up efforts to reach an agreement with Europol: in January 2005 Europol suggested a two-step approach starting with a "strategic agreement" and moving on in due course to operational co-operation, but since then little progress has been made.

Overall, the Albanian State Police has made progress in adopting a potentially more effective structure with improved internal regulation mechanisms and better results in fighting internal corruption. However, Albania has considerable room for improvement in legislation, management, infrastructure and international co-operation related to police work.

3.3.5. Fighting organised crime and terrorism

Albania has made progress in the fight against organised crime and terrorism.

The legislative framework for the **fight against organised crime** improved with Albania's adoption of the so-called 'anti-mafia package' in September 2004, consisting of a law on fighting organised crime, a law against the financing of terrorism and a law on protection of witnesses and those who co-operate with the authorities. These laws provide a much-needed legal definition of a criminal organisation and of trafficking in human beings. The package also provides for the use of special investigative means, tackling corruption and abuse of office, and rewarding co-operation with the authorities.

Progress has been made in the implementation of the specific action-oriented measures against organised crime presented to the EU in November 2003 and December 2004. The Organised Crime Sub-Directorate in the Ministry of Public Order and the Financial Intelligence Unit in the Ministry of Finance have been upgraded to directorate status. The latter has been given larger premises and more staff. The reversal of the burden of proof as regards the suspected proceeds of crime and better asset confiscation laws were introduced as part of the anti-mafia package. Initial implementing legislation on an agency for the confiscation of assets has been approved.

The Organised Crime Initiative, where Member State experts put in place through EC assistance help Albanian law enforcement services on the ground, has expanded beyond Durres, Vlora and Tirana to cover further border crossing points and has contributed to Albania's work in uncovering a number of significant smuggling operations.

Progress in implementing the specific action-oriented measures against organised crime should be speeded up: Albania should make further investments in IT for the FIU and address concerns about its independence from the Ministry of Finance. Albanian judges, prosecutors and police officers, with the help of international actors, should review the new legal provisions for the reversal of the burden of proof and for asset confiscation laws to remove loopholes and defective provisions. Albania should adopt the further implementing legislation needed in these areas and in the field of witness protection. Legislative steps should be taken to criminalise the handling of stolen goods.

Albania should develop operational guidelines on witness protection and take immediate steps to tackle basic aspects of witness protection, such as the protection of witnesses in court and remote interviewing.

Agreements concluded with regional and international partners in relation to combating organised crime should be enforced more vigorously. However, the lack of an authority for the protection of personal data limits effective data protection and prevents data exchange with the law enforcement institutions of other countries.

Albania should make more determined use of the provisions of the new organised crime laws to tackle corruption in law enforcement bodies. The use of special investigative means, the interception of telecommunications, and the use of intelligence information should be enhanced. Albania should accelerate the harmonisation of the Customs Code and penal procedures. Above all, Albania should use the tools it is now putting in place effectively in order to arrest and prosecute organised criminals, including the most powerful.

Albania is continuing to implement its 2003 anti-trafficking strategy. **Trafficking of human beings** across the Adriatic and Ionian Seas has been significantly reduced. The Vlora Anti Trafficking Centre has played a limited but positive role as a clearing house between countries for information and intelligence on trafficking issues. In November 2004 Albania ratified a cooperation agreement with the former Yugoslav Republic of Macedonia on the fight against terrorism, organised crime, drug trafficking and illegal migration. Analysts in the police's Organised Crime Sub-Directorate are now performing better by concentrating on the examination of intelligence data rather than on data entry. Progress has been made in adopting implementing legislation on witness protection, with six new implementing acts approved in June and July 2005, all of which are already in force.

Alongside the new law against the financing of terrorism, an important step towards the effective organisation of the **fight against terrorism** was the establishment of the Directorate for Counter-Terrorism in the Albanian State Police in October 2004. Albania has clearly supported international initiatives on the fight against terrorism, is progressively adopting and implementing relevant UN Security Council resolutions and international conventions. It has expelled suspected supporters of terrorism from the country. Albania should accelerate efforts to incorporate these measures fully into domestic legislation, and implement them, in order to be able to bring suspected terrorists to justice on the basis of the principle which requires either extradition or prosecution. Important steps are also ongoing to improve flight and airport security, but security at Tirana airport is not yet up to international standards.

Albania should take measures to enhance co-operation between the judiciary and the police, both country-wide and in particular as regards the Organised Crime Directorate of the Albanian State Police and the General Prosecution Office. The specific responsibilities of the numerous agencies ranging from the Directorate for Counter-Terrorism to the Financial Intelligence Unit should be clarified so as to build a coherent and well coordinated intelligence gathering and law enforcement system.

Overall, Albania has made progress in the fight against organised crime and terrorism by establishing a sounder legal and administrative basis for work in this field, by improving investigative capacity, particularly in relation to money laundering, and by strengthening international co-operation and supporting international initiatives. However, much of Albania's progress thus far, in the area of organised crime in particular, has consisted of putting in place a framework: Albania now needs to build upon that framework and to use it to obtain results.

3.4 General evaluation

Albania has made some progress towards meeting **European standards**. Progress has mainly consisted of adoption of new legislation and the establishment of new institutions. Some efforts regarding the strengthening of administrative capacity have also been made, but in a number of cases more commitment and resources are needed for further progress.

On *internal market* issues, Albania has continued to make progress in the area of *free movement of goods*. Standardisation and certification has advanced satisfactorily, but more attention should be paid to implementing the New, Global and Old Approach directives. There have been no legislative developments in metrology, and equipment for testing is deficient. Considerable further legal and administrative progress is required for proper market surveillance. Consumer protection laws should be improved and implemented. As regards the *movement of persons, services and right of establishment*, Albania continues to face a problem of emigration. Legislation on establishment is relatively open but requires amendment to remove discrimination between national and foreign firms. Rules for the provision of services are fairly liberal. No significant developments have taken place regarding the *movement of capital*.

Albania has made considerable progress in the field of *customs* rules, and revenue collection has increased, while progress in other related areas has been more limited and further action is needed to address corruption in the customs service. *Taxation* legislation has been improved, benefiting in particular SMEs. A positive development was the transfer of the social and health insurance contributions collection section to the tax administration. Tax legislation should be implemented fairly and transparently and revenue collection should be improved.

In the field of *competition*, more work is needed to increase understanding of its principles among market actors. Particular progress has been made on state aid, with a state aid department established and new legislation passed. Existing *public procurement* rules should be respected, and related legislation requires considerable work to comply with EU standards. New legislation on *intellectual property rights* was adopted, but its enforcement should be enhanced. Some progress has been made regarding the *statistics* system, especially on classification and the establishment of a business registry, which should now be expanded. Macroeconomic statistics should be improved.

With regard to *sectoral policies*, the *industry and SME* sector showed only limited progress, but the abovementioned steps in the field of taxation benefited the sector. Albania should fully implement its action plan to reduce administrative barriers and address the informal economy.

The *agriculture* and *fisheries* sectors have made little progress. Agriculture continues to function as economic and social buffer, reducing poverty and unemployment, although its share of GDP continues to decrease. Much needs to be done to improve the quality of agricultural and fisheries produce, in particular regarding food safety.

Only limited progress has been made as regards the *environment*. Some improved legislation has been adopted, but enforcement continues to be problematic. Administrative capacity to implement environmental legislation should be strengthened.

Some progress has been made in the *transport* sector, especially in legislation and participation in international fora, but its infrastructure remains inadequate and poorly

maintained. Albania should implement its transport master plan and improve transport safety in the various transport modes. Transport investments should be transparent and respect procurement rules.

Albania has made good progress in the *energy* sector, in particular by implementing the energy action plan, aligning legislation and signing the South East Europe Energy Community treaty. It must continue to strictly implement the energy action plan in order to reduce the still-frequent power cuts and illegal connections.

Some progress has been made in the sector of *information society and media*, in particular through the liberalisation of the telecommunications sector and improved distribution of electronic communications. The privatisation of Albtelecom remains to be successfully concluded and telecommunications legislation should be developed to attract further investment. Further work is needed to align electronic communications, information technology and audiovisual legislation and to ensure its non-discriminatory implementation.

Albania has drafted a Policy Paper on public internal financial control, but it needs to be further developed. As regards external audit, the Supreme Audit Institution of Albania should be improved in line with the INTOSAI guidelines, and its financial independence should be ensured.

In the field of *justice, freedom and security*, travel documents have been made more secure, but progress is needed in computerising the *visa* system and in bringing visa legislation up to EU standards. Albania has considerably improved *border control* through better management and IT infrastructure and better co-operation with neighbours, but trafficking remains a significant problem which should be addressed through an integrated border management strategy providing for improved inter-service co-operation and further resources. National strategies were adopted on *migration* and *asylum*, and Albania signed a readmission agreement with the EU. These now need to be funded and implemented.

Progress has been made in fighting *money laundering*, with new implementing legislation and steps to improve inter-agency and regional co-operation. These aspects however need further work, focusing on results, and the Financial Intelligence Unit, the prosecutor's offices and the police Economic Crime Unit require more resources to function fully effectively.

Albania has made some progress in the fight against the illegal *drugs* trade, approving a National Anti-Drug Strategy, the introduction of special investigative means and asset seizure legislation. Albania nonetheless continues to be a major transit country for drug trafficking and should give higher priority and funding to the implementation of its anti-drug strategy. It should further strengthen enforcement, improve co-ordination both domestically and with foreign partners and prevent the obstruction of anti-drug investigations by public servants.

There has been some progress in enhancing the effectiveness of the Albanian state *police*, with the strengthening of departments dealing with organised crime and corruption, and prosecution and dismissal of increased numbers of often senior police officers for corruption. Albania must nonetheless further improve the equipment and the management of the police, in particular as regards human resources, transparency, autonomy and police records, and should accelerate efforts to reach an agreement with Europol.

Albania has made progress in the fight *against organized crime and terrorism*, adopting a targeted package of laws. Albania has continued to implement the specific action-oriented

measures against organised crime and has upgraded key ministry bodies and improved laws on the proceeds of crime. Police intelligence analysis has improved, and sea-borne human trafficking has been reduced. Progress in implementing the action-oriented measures should however be accelerated and concrete steps to improve witness protection are urgently required. Albania should improve inter-agency co-operation, pursue regional and international co-operation more vigorously and use its new legal tools more determinedly to arrest and prosecute organised criminals. The fight against *terrorism* was reinforced by the establishment of a specialist police directorate. Albania has supported international initiatives in the field, expelled suspected supporters of terrorism and is improving airport security. It should accelerate implementation of international conventions and further improve security at Tirana airport.

C. EUROPEAN PARTNERSHIP: OVERALL ASSESSMENT

Albania's progress and overall state of implementation of the Stabilisation and Association process has been examined above. This section assesses briefly the overall extent to which the priorities of the European Partnership, adopted by the Council in June 2004³, have been implemented.

The purpose of the European Partnership is to assist the Albanian authorities by identifying short-and medium-term priorities which need to be carried out by Albania to make further progress towards the EU. The priorities have been selected on the basis that it is realistic to expect that the country can complete them or take them substantially forward over the next few years.

A distinction is made between short-term priorities, which are expected to be accomplished within one to two years, and medium-term priorities, which are expected to be accomplished within three to four years. The European Partnership forms the basis for programming assistance from EU funds.

Overall, Albania has made some progress in implementing the European Partnership's short-term priorities, but has not yet begun to address concertedly those set out for the medium term. Notable progress has been made in the adoption of new legislation and in the formulation of action plans. In some cases implementation has followed, but in many cases proper implementation has been hampered by a difficulty in making available resources combined in some cases with a lack of political will.

As regards the criteria related to the **political situation**, OSCE/ODIHR recommendations issued following the 2003 local elections were largely implemented, albeit slowly, leading to improved 2005 parliamentary elections. Despite shortcomings, these parliamentary elections were fundamentally valid and led to a smooth change of government. Albania has passed new legislation in important areas such as property restitution and compensation, amending the Electoral Code, and the fight against organised crime. The Parliament's new rules of procedure have the potential to make its legislative work more rational and transparent. The Civil Service Commission is starting to work more effectively, in particular through better use of inspectors, the output of the Training Institute of Public Administration is increasing, and progress is being made in reviewing territorial divisions. Legislative reform of the judicial system has brought Albania closer to EU standards. The remit of the Serious Crimes Court has been reduced in order to focus more effectively on matters related to organised crime. The School of Magistrates is now working according to a strategic plan which makes training mandatory. A national strategy to improve the living conditions of the Roma was adopted, and a Special State Committee on Minorities was established. Albania has fostered good regional relations through free trade agreements with its non-EU neighbours and through participation in a number of multilateral regional initiatives. Albania has now regularised its position as regards its WTO obligations by obtaining a waiver until 2007 with respect to the conformity of its tariff for certain commodities - including beer, steel and wood products - with its Schedule of Commitments.

³ Council Decision 2004/519/EC of 14 June 2004 on the principles, priorities and conditions contained in the European Partnership with Albania (OJ L 223, 24.6.2004, p. 20).

Nonetheless, Albania faces some significant challenges in addressing priorities relating to the political situation: better parliamentary rules can channel debate more effectively, but the political climate needs to be more constructive if agreement is to be reached in due time on difficult reforms. Once adopted, legislative reforms and action plans must be translated more quickly and willingly into concrete achievements. Judicial transparency should be fostered by making more rulings public, and better legislation on witness protection, backed with appropriate financial resources, should be put in place. The civil service law should be fully implemented, with political appointments reduced to the appropriate minimum. Albania should ensure that its strategy to fight corruption is realistic and precise, that it is adequately enforced, and that the capacity to investigate and prosecute transgressions is in place. Albania should show more commitment to, and devote more resources to, investigating and prosecuting cases of corruption in all public services including the police, and to implementing the Law on Declaration of Assets. Further effort should be made to ensure that law enforcement officers are aware of their human rights obligations, and that there is considerably better enforcement of these obligations, with transgressions being systematically punished. Albania should fully implement the 2004 master plan for improved treatment of detainees. Albania should foster the freedom of media and expression by adopting new laws on defamation, media ownership and press freedom which are fully in line with international standards. Further efforts are required to complete the legal and administrative framework for the protection of minorities. The national strategy to improve the living conditions of the Roma should be fully implemented.

As regards the priorities related to the **economic situation**, Albania has been successful in maintaining a stable macro-economic framework, generally achieving IMF objectives. Progress has been made in removing administrative barriers to investment, and Albania's SME agency is now operational. New legislation on the restitution and compensation of property has been adopted. Public finance management has improved considerably, with better revenue estimation and budget planning, the latter reinforced by the new Integrated Planning System, and a new EU-compatible strategy on public internal financial control.

However, Albania needs to make more effort to ensure it is in a position to fulfil its future SAA obligations, ensure non-discriminatory application of business law for EU companies to establish themselves in the country, improve commercial legislation, provide more resources for its SME agency, and make it easier to start up companies, in all parts of the country and in particular from a tax point of view. More fundamentally, certainty of property ownership urgently needs to be improved through the full and timely implementation of the new law on property restitution and compensation, in particular accelerating progress in the first registration of properties and the subsequent processing of claims. Albania should also develop a strategy to promote employment and social cohesion, including measures to improve the way social protection systems focus limited resources.

On priorities related to **European standards**, progress has been made on a number of priorities. In the area of the *internal market*, considerable progress has been made in regarding standards and accreditation, with 57 % of the European standards (ENs) adopted by CEN as Albanian standards, and an Accreditation Directorate in place and functioning. Good progress has been made in the field of customs, with fulfilment of revenue targets, improved administrative capacity, lower levels of staff turnover, better co-operation with the police and the implementation of the ASYCUDA system in Tirana, Durres, Qafe Thane, Vlora, Kakavie and Kapshtice. A Competition Authority has been established, and a new law on state aid, which provides for the setting up of a state aid authority by 2006, has been adopted. On intellectual property, a new law provides for improved copyright protection.

However, the adoption of European standards needs to be accompanied by measures to increase awareness of their importance among economic operators. More concrete progress should be made by the customs service in fighting smuggling and trafficking. Tax legislation should be more intensively enforced to help fight fraud. Public procurement should be improved both legislatively and in terms of administrative capacity in the Public Procurement Agency and line ministries. Legislative progress on copyright protection should be followed up by reinforcement of administrative capacity, and awareness of intellectual property rights among economic operators and law enforcement services should be increased.

As regards *sectoral policies*, Albania has begun to address environmental ‘hotspots’ in Durrës and Vlora and has made some progress in implementing water management strategies. Albania has made progress in implementing its energy strategy, its 2003-2005 energy action plan and its commitments undertaken in the framework of the regional energy market process leading to the Energy Community Treaty which it signed on 25 October 2005. Nonetheless, Inter-ministerial co-ordination on environment issues should be improved and administrative capacity strengthened within the Ministry of Environment. The telecommunications market has been liberalised since the beginning of 2005 and the sector should now be effectively regulated.

In the area of *justice, freedom and security*, progress has been made in strengthening technical capacity for border management, improving management standards and on risk analysis. Co-operation with border services of neighbouring countries has improved. A national migration strategy has been adopted, and a system of ‘pre-screening’ has been introduced in order to deal more effectively with persons in an irregular situation. A new legislative package has been adopted to improve the fight against organised crime, the 2003 anti-trafficking strategy is being implemented, and a substantial reduction in trafficking of persons across the Adriatic has been achieved. Albania’s national drugs strategy is in place. Some progress has been made in strengthening Albania’s capacity to fight money laundering, in improving the investigative skills of the Albanian State Police and in fighting corruption within police ranks. Albania has given its clear support to international initiatives to fight terrorism, taken steps to expel suspected terrorist supporters and is improving air and airport security. The new legislative package on organised crime also includes the establishment of a directorate for counter-terrorism in the Albanian State police.

However, Albania should develop an integrated border management strategy compliant with EU standards, and border management services should liaise more effectively with their counterparts in neighbouring countries. Sufficient resources should be made available for the implementation of the national migration strategy and the updated national asylum action plan. The law on police ranks should be fully implemented. Police procedures generally, and in particular internal discipline and promotion, should be made more transparent. Co-ordination of services in the field of fighting organised crime should be improved, in particular between the police and the prosecutor’s office. New legislation in the fight against organised crime should be followed up by rigorous implementation leading to concrete achievements in the arrest and prosecution of perpetrators and the seizure of assets. Working procedures and the level of resources targeted at implementing money laundering legislation should be improved, and drugs-related legislation should be more vigorously enforced.

Albania’s progress in addressing the issues identified as priorities by the June 2004 European Partnership is discussed in more detail in other parts of this report, notably in Section B.3. On the basis of the findings of this report, the Commission proposes a revised European Partnership for Albania for adoption by the Council. The European Partnership will continue

to be a key tool for guiding Albania's efforts to move closer to the EU. It should be given the necessary political attention and should help Albania to set its legislative and institution-building agenda.

STATISTICAL ANNEX

Statistical data on Albania as of 1 September 2005

GDP per capita by region	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Region 1	Million	EUR		:	:	:	:	:	:	:	:	:	:
Region 2	Million	EUR		:	:	:	:	:	:	:	:	:	:

Unemployment rate by region	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Region 1	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:
Region 2	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:

Public expenditure	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Health expenditure, as a share of GDP	Unit (x1)	%		:	:	:	:	2,5	2,3	2,2	2,0	:	:
Social protection expenditure excluding administrative costs (including health expenditure), as a share of GDP	Unit (x1)	%		:	:	:	:	7,2	7,3	7,0	6,8	:	:
SI: Spending on human resources (public expenditure on education) as a share of GDP	Unit (x1)	%		3,7	3,7	3,3	3,2	3,3	3,1	3,2	2,8	2,9	:

Population age structure	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Population: people aged under 15 as a share of the total population	Unit (x1)	%		:	:	:	:	:	:	29,5	28,8	28,1	27,3
Population: people aged between 15 and 64 as a share of the total population	Unit (x1)	%		:	:	:	:	:	:	63,0	63,5	64,1	64,6
Population: people aged 65 or over as a share of the total population	Unit (x1)	%		:	:	:	:	:	:	7,4	7,7	7,9	8,1

International migration	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of immigrants	Thousand	Number		:	:	:	:	:	:	:	:	:	:
Number of emigrants	Thousand	Number		:	:	:	:	:	:	:	:	:	:

Tertiary education	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Participation rate for persons aged 18 to 24	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:

- e estimate
f forecast
p provisional
1) From 1995-2000, population projections based on the 1989 population census.

Note: the full set of Key indicators is available in http://europa.eu.int/estatref/info/sdds/en/coop_eur/coop_eur_base.htm. The definitions of the indicators that countries have been requested to follow can be found (in English) in http://europa.eu.int/estatref/info/sdds/en/coop_eur_definitions.pdf, which also includes the definitions of the few indicators extracted from Eurostat's database, and from Comext. When countries have indicated divergences from the definitions requested these are indicated in a list of the footnotes.