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Albania 2006 Progress Report

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Albania 2006 Progress Report

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on progress made by the countries of the Western Balkans region.

This progress report largely follows the same structure as in the previous years. The report:

- briefly describes the relations between Albania and the Union;
- analyses the situation in Albania in terms of the political criteria for membership;
- analysis the situation in Albania on the basis of the economic criteria for membership;
- reviews Albania's capacity to gradually approximate its legislation and policies with those of the *acquis*, in line with the Stabilisation and Association Agreement and the European Partnership priorities;

The period covered by this report is 1 October 2005 to 30 September 2006. Progress is measured on the basis of decisions taken, legislation adopted and the measures implemented. As a rule, legislation or measures which are under preparation or await Parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Albania, the Member States, European Parliament reports¹, and information from various international and non-governmental organisations.

The Commission draws conclusions regarding Albania in its separate communication on enlargement², based on the technical analysis contained in this report.

1.2. Relations between the EU and Albania

Albania is participating in the **Stabilisation and Association Process** (SAP).

Albania signed a **Stabilisation and Association Agreement** (SAA) with the EU on 12 June 2006. The SAA provides a framework of mutual commitments on a wide range of political, trade and economic issues.

¹ For Albania, the *rapporteur* is Mr Toomas Ilves.

² Enlargement Strategy and Main Challenges 2006 – 2007.

Trade-related parts of the SAA are implemented through an Interim Agreement while ratification of the SAA is being completed. The Interim Agreement enters into force on 1 December 2006. Co-operation provisions of the 1992 Trade, Commercial and Economic Co-operation Agreement (TCECA) will remain in operation until the SAA is ratified. Albania also benefits from autonomous trade measures granted by the EU.

The revised **European Partnership**, setting out priorities that Albania should address in the short- and medium-term, was adopted in January 2005. Albania adopted a plan to implement the European Partnership priorities in July 2006.

An EC-Albania readmission agreement entered into force in May 2006. In July 2006, the Commission made a proposal to the Council for a mandate to negotiate an EC-Albania **visa facilitation** agreement.

The EC allocated a total of € 45.5 million in pre-accession **financial assistance** to Albania in 2006. Albania also benefits from loans from the EIB and € 25 million in terms of EC macro-financial assistance.

2. POLITICAL CRITERIA

This section examines progress made by Albania towards meeting the Copenhagen political criteria which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations, and the respect for international obligations.

2.1. Democracy and the rule of law

Parliament

The role of the parliament as a central political institution has continued to increase. Relations between the parliament and other constitutional bodies, notably the Constitutional Court and the Presidency, and the subsequent interventions of these bodies, have been appropriate and effective. The Parliamentary Committee on European Integration has been very active, which has helped to raise awareness of the EU integration process in the parliament's activities. Efficient committee and plenary work allowed the Parliament to deal effectively with the 2006 budget law. The work of the parliament is now more transparent as specialised staff and equipment are now used to transcribe all plenary parliamentary sessions.

Periods of political deadlock in spring and summer 2006 hampered the parliament's efforts to deal with important reform issues, particularly those which require broad political consensus. The poor political climate hindered the work of the parliamentary working group on electoral reform and slow political agreement delayed nomination of members of the Central Electoral Commission. This delayed work on implementing the recommendations of OSCE's Office for Democratic Institutions and Human Rights (ODIHR) following the 2005 parliamentary elections. A political agreement reached in August with international community help ended the summer deadlock. Albania has yet to demonstrate the capacity to achieve domestically-generated political co-operation.

The parliament still faces technical and administrative shortfalls. The parliament's limited budget is not consistently focused on core tasks. Procedures and equipment for voting do not yet ensure transparent and undisputed results. A number of ad hoc inquiry committees have

been set up, sometimes with an unclear mandate. There is a risk of duplication. Parliamentary transparency could be further increased if the work of parliamentary committees were transcribed.

Overall the parliament is assuming a full role politically and making steady improvements in its technical operation. However, effective parliamentary work on reform, essential to fulfil SAA obligations, has been held back by difficulties in political co-operation.

Government

The government has adopted a revised national plan to implement the European Partnership priorities and the SAA. This plan makes a first attempt to cost the European integration process, which is necessary for budgetary forecasting. It also broadly schedules reform and capacity-building steps and defines institutional responsibility for them. The plan will form part of a new National Strategy for Development and Integration (NSDI). Work has begun on the development of 23 sector strategies and 10 cross-cutting strategies for the NSDI. Line ministry budget allocations will be limited to actions described in the 23 sector strategies. The NSDI will feed into the Integrated Planning System (IPS) through which national and donor resources will be allocated. This strategic and operational framework should help the government to fulfil SAA reform commitments.

The Council of Ministers has approved the establishment of EU Integration Units in twelve line ministries. Establishment of these units, through which the Ministry of European Integration will co-ordinate EU-related reforms, is underway. The Minister of European Integration has been appointed IPA National Aid Coordinator.

The Council of Ministers staff has largely been replaced by teams working on cross-cutting issues directly under advisors to the Prime Minister. This structure could help to address high-priority horizontal issues. There has been some effort to extend participation in designing new legislation beyond central government to local and civil society stakeholders, for example on the draft law on municipal borrowing.

However, much remains to be done to ensure wider consensus and the use of all available expertise on reforms. New horizontal teams working directly for the Prime Minister have not always drawn upon government and donor expertise in drafting legislative proposals, resulting in poor drafting. An increase in the number of institutions directly accountable to the Council of Ministers has taken place, and there is a tendency for direct oversight by the Prime Minister. This centralisation has led to many routine technical decisions being taken at the level of the Prime Minister, which has delayed key actions.

Implementation of the IPS is currently coordinated by the Council of Ministers' Department of Strategy and Donor Coordination. However, the full complement of personnel has not yet been assigned to its IPS Implementation Unit, despite an approved staff plan. Sound co-ordination between the Department of Strategy and Donor Coordination and the Ministry of European Integration will be essential, in particular to ensure appropriate support for SAA reform commitments.

Public administration

The new government has made significant changes to the public administration. Substantial staff changes have been made to address corruption, in particular in the customs and tax administrations. Ministerial portfolios have been changed: for example, the former Ministries

of Public Order and of Local Government and Decentralisation have been incorporated into a new Ministry of Interior. Many ministries have also been restructured to improve co-ordination and effectiveness, as in the case of the Ministry of European Integration. This ministry now has appropriate premises.

However, hiring and dismissal of staff has in some cases occurred without due attention to the Civil Service Law. Administrative acts have been signed by temporary replacements who had not been not officially appointed. Both developments have to some extent undermined the legal certainty introduced by the Civil Service Law. The introduction of new structures and staff has led to a transitional reduction in capacity in many areas of the public administration. Albania now needs to build upon the changes to strengthen public administration effectiveness. The capacity of the Department of Public Administration to set common management strategies across the public administration remains limited. Career structures, career planning, salaries and performance management in the civil service and other public services remain poor. Political appointment of higher civil servants remains prevalent, restricting the growth of a professional senior civil service level.

Judicial system

A new law to overhaul the organisation of the judiciary has been approved by the Council of Ministers. The purpose is to improve judges' career structure, clarify disciplinary proceedings and provide for administrative courts and for the random assignment of cases to judges. The capacity of the Office of Administration of the Judicial Budget has improved. The High Council of Justice has approved a new system for the professional evaluation of lower court judges. Work is beginning on a new building to house the district and appeal courts for serious crimes in Tirana.

A Constitutional Court ruling underlined the independence of the judiciary. A new law intended to eliminate conflicts of interest at the High Council of Justice (the independent body which appoints judges) required its members, most of whom are judges, to give up judging. This deprived six courts of their judges, delaying the courts' work for several months. The Constitutional Court subsequently declared much of the new law unconstitutional.

Judicial transparency has been increased through the publication of more judicial decisions and the results of checks on violation of the procedural code. Screens displaying court session information have been placed in the entry hall of several courts and court offices have been located closer to public entrances.

The Magistrates' School has expanded its training programmes. It remains an important focal point for initial and continuous training and is the source for virtually all new prosecutors and judges. Its long-term strategy stresses that the School will be sustainable without donor support, provided government support continues.

There has been some progress in the field of enforcement of final judicial decisions through the reorganisation of the Bailiff Service and the upgrading of the level of its employees.

However, judicial proceedings remain lengthy, poorly organised and lack transparency. The proposed new Law on the Judiciary does not address three long-standing shortfalls: improving the independence and constitutional protection of judges, improving the pay and status of the administrative staff of the judicial system (who are not civil servants) and the appropriate division of competences between the judicial inspectorates of the High Council of Justice and the Ministry of Justice. The two inspectorates currently divide work informally. The proposed

provisions for the transparent assignment of cases to judges will require implementing legislation to establish objective rules. A system for the evaluation of prosecutors is not yet in place. Implementation of a planned reorganisation of district courts is needed to improve efficiency, but has not yet begun. Many courts still lack adequate space for courtrooms, judges' offices, archives and equipment. Co-operation between the police and the judiciary generally remains poor. The Bailiff Service remains hindered in executing judgements by lack of funds, unclear court decisions, and the refusal of many state organisations to meet their judgment obligations.

The draft Law on the Judiciary provides that all new judges will have to be graduates of the Magistrates' School, but no other steps have been taken towards appointing judges and prosecutors through competitive examinations. Expansion of the academic possibilities for studying law will require an appropriate system of quality control. The profession of notary and advocate continue to be weak points in the judicial system, with little legal or practical development.

The transformation of the Legal Reform Commission from a full- to a part-time body risks reducing its capacity to ensure the coherence of new laws and their compliance with European and international legal frameworks, and provide for public information and participation.

No efforts have been recorded to further develop the legal framework for witness protection so as to ensure that the safety of vulnerable witnesses is appropriately balanced with the accused right of defence. There are plans to devote a whole police directorate to witness protection, but sufficient resources are not yet available to fully implement existing legislation. Basic witness protection measures, such as the protection of witnesses in court and the use of screens or close circuit television, are not given sufficient attention. No progress has been made on operational guidelines for witness protection. Given the confidentiality and sensitivity of witness protection, the stability and continuity of staffing in the sector requires greater attention.

A special investigative commission of parliament resulted in a vote recommending that the President dismiss the General Prosecutor. The President subsequently rejected this recommendation. The General Prosecutor is appointed by the President with the consent of the Assembly.

Legal certainty is fundamental to Albania's reform progress and is an important precondition for a number of obligations under the SAA. In particular, the possibility of effective legal sanction is important for successful trade under the Interim Agreement and the SAA.

Anti-corruption policy

The government has taken determined measures to reduce corruption, particularly in the tax and customs services where the problem was most severe. This addresses a key European Partnership priority. Large-scale dismissals have been undertaken to regain control of departments where corruption was widespread. This has led to some improvement, notably in customs.

The government has also sought to address corruption by reducing the role of the state in the economic and social life of the country, through reducing central administration staff and simplifying administrative and licensing procedures. It has proposed reforms to the tax administration, public procurement and business registration to reduce corruption and improve the environment for business.

The number of public officials prosecuted for corruption has increased. Of 237 prosecuted in 2005 and 75 in first quarter of 2006 (compared with 171 in 2004) 84 were sentenced, including mid- and high-level officials. Despite fears that staff changes could be used as a political weapon, leniency has not been shown towards those affiliated to the governing party. The number of disciplinary procedures against corrupt prosecutors is an indicator of the scale of corruption, but a positive signal that steps are being taken to combat it (71 cases since 2002, i.e. 25-30% of total number of national prosecutors).

The government has set up an Anti-corruption Task Force headed by the Prime Minister. It consists of line ministers and heads of sensitive government agencies such as taxation, privatisation, licensing and public procurement. It analyses and assesses corruption problems in specific sectors and formulates strategic priorities and practical measures. The seniority of its membership gives it the authority to make real changes. The existing Anti-Corruption Monitoring Group has been merged into the Department of Internal Administrative Control and renamed the Department of Internal Administrative Control and Anti-Corruption (DIAC). It operates under the Prime Minister's office and comprises a director and ten inspectors who analyse reported cases of corruption in all branches of the public administration. They propose administrative measures or send the cases for criminal investigation.

The Law on Conflict of Interest has been amended to address practical problems resulting from the implementation of the existing law. The High Inspectorate for Disclosure and Verification of Assets has intensified its activity and officials of the inspectorate have now been authorised to investigate bank accounts of officials outside the country. The task force of selected prosecutors and judicial police officers established at the Tirana district court now deals with corruption cases as well as financial crimes.

Steps have been taken to increase the transparency of the public administration: website publication of government orders, decisions and other public acts; public information units in ministries, free telephone lines and post-boxes for public comment in central institutions.

Albania participates in two regional anti-corruption initiatives: the Council of Europe GRECO (Group of States against Corruption) and SPAI (Stability Pact Anticorruption Initiative). Implementation of GRECO Evaluation Report recommendations has been limited. The government has followed a new approach rather than using the framework of the National Anti-Corruption Strategy which it has not updated. A new law to encourage citizens to denounce corruption in the public administration puts into action a GRECO recommendation on whistle-blowing. However, this has led to concerns that denunciation could be abused for score-settling.

Some legislative measures designed to combat corruption have been rejected by the Constitutional Court following concerns on individual rights (for example a law against nepotism in the customs and tax administrations). A government proposal to lift the immunity of members of parliament for the purposes of prosecution for corruption is still pending in parliament as a 3/5 parliamentary majority is required and the opposition objects on constitutional grounds.

New legislation is required for Albania to implement the Civil Law Convention on Corruption and the Criminal Law Convention on Corruption, the UN Anticorruption Convention and the UN Convention against Trans-national Organised Crime (the Palermo Convention, which contains provisions on corruption), the development of which is delayed. Albania still has no specific legislation on bribery of foreign officials and is not a signatory country of the 1997

OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Sustained progress in fighting corruption is a fundamental condition for successful implementation of the SAA and the Interim Agreement. This will require following up strong initial measures with systematic efforts to tackle the causes of corruption by fixing legal loopholes, improving salaries, stabilising the public administration, further simplifying complex and opaque administrative procedures and improving the professionalism of civil servants. Designing and adopting effective legislation for the required systemic reforms will require broad political consensus on how to tackle corruption in the medium and long term.

2.2. Human rights and the protection of minorities

Observance of international human rights law

Albania signed the following conventions in late 2005: the Council of Europe Convention on Action against Trafficking in Human Beings, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, Council of Europe Convention on the Prevention of Terrorism and Council of Europe Framework Convention on the Value of Cultural Heritage for Society. However, these conventions have yet to be ratified by the Albanian Parliament. Albania has now ratified Protocol 12 of the ECHR concerning a general prohibition of discrimination and signed Protocol 14 amending the control system of the Convention.

Albania executed the first of two European Court of Human Rights (ECHR) judgements against it via an individual decision of the Council of Ministers. However, Albania's civil and criminal procedure codes still lack specific provisions to give the ECHR's decisions legal status systematically. The second ECHR judgement was made against Albania in August 2006 concerning property restitution. Albania has not yet ratified Protocol No. 13 to the ECHR which it signed in May 2003. This concerns the abolition of death penalty in all circumstances.

Human rights and fundamental freedoms are guaranteed by Albanian law, and the government generally observes them. However, enforcement of international agreements on human rights in areas such as torture prevention, the rights of detainees and the right to a fair trial remains weak. Details of shortfalls in specific areas are given below.

Civil and political rights

Regarding **prevention of torture and ill-treatment**, Albania's Criminal Code is not yet in line with the standards of the UN Convention against Torture, particularly the definition of torture (*see also Prison system*).

As regards the **fight against impunity**, prosecution is taking place under criminal law and the code of ethics for the prison system in cases of ill-treatment and torture by law-enforcement bodies. In 2005 and the first quarter of 2006, 40 cases were initiated, 16 cases submitted to court and 3 people so far sentenced.

However, those responsible for the ill-treatment of prisoners are often still not charged with appropriately serious offences. Measures are not yet in place to ensure adequate compensation to persons who have suffered ill-treatment by law enforcement bodies.

Regarding **access to justice**, Albanian legislation provides for free legal defence for defendants who cannot afford a private lawyer. However, this service does not always provide timely and appropriate legal assistance. A separate jurisdiction has not yet been established for the trial of juveniles.

There are persistent reports of **arbitrary arrest** and mistreatment of homosexuals by the police.

As regards human rights in the **prison system**, obligatory training courses on human rights have been introduced for judges, prosecutors, police officers and prison personnel and these issues have been included on the School of Magistrates curriculum. Cooperation with NGOs on prison monitoring has improved. A new standard regulation covering the pre-trial detention system has been approved. Albania's Ombudsman's office has been playing an increasing role in the protection of individual human rights generally. The scope of its activities has been extended to include unlimited access to prisons. The Ministry of Justice has abandoned a plan to establish a new juvenile detention centre in Pogradec, instead opting for Kavaja, near Tirana, where the centre would be more accessible to family members.

However, little progress has been made overall on improving conditions in prisons and detention centres. The human and material resources available for prison management remain insufficient. Building new prisons and pre-trial detention centres according to the Master Plan for Judicial Infrastructure is advancing slowly. Implementation of the Master Plan for the pre-trial detention system is behind schedule. 80 convicted prisoners are still being held in police detention facilities. A new pre-trial detention regulation is a step forward but does not meet international practice, which requires that the pre-trial detention regulation should be made into a law.

Basic safeguards against ill-treatment during pre-trial detention such as access to a lawyer and doctor and notification of detention to relatives are not yet regularly applied. The code of ethics for the prison system is not yet rigorously observed and measures to ensure the safety of prisoners are weak. The Supervisory Commission for the Execution of Imprisonment Sentences is not yet operational. This body advises the Minister of Justice on enforcement issues and protection of the rights of prisoners and detainees.

Freedom of religion is guaranteed in law and in practice. According to the Constitution, there is no official religion and all religions are equal. Despite some isolated incidents, Albania continues to provide a valuable example of religious harmony in the region. However, religious communities are adversely affected by the authorities' failure as yet to provide for full restitution of properties and other belongings.

Freedom of expression is constitutionally guaranteed in Albania. Legislation which could have a strong bearing on media freedom is pending in parliament. The status of journalists in the labour code has been improved. Changes to the membership of the National Council of Radio and Television and the Steering Committee Council of Albanian Radio and Television to include experts and NGOs should make media supervision more representative and efficient, and the public service broadcaster more neutral, if implemented in line with European standards (*see also Audiovisual Policy*). However, the August political agreement (*see Parliament*) will have to be implemented with care to avoid limiting the positive effect of this reform.

A legal amendment prevents the owners of electronic media from participating in public sector tenders. This could present problems from the *acquis* point of view in terms of business competition. It should be complemented by a more comprehensive approach to media ownership. Nevertheless it is a strong anti-corruption measure and should contribute to media freedom. A new Council on Media Ethics has the potential to promote media self-regulation and improved journalistic standards.

However, overall progress in this field, a key short term European Partnership priority, has been limited. Most media outlets remain subject to political or economic interests. The legal framework for media freedom remains inadequate. Poor implementation of existing legislation is also a major shortcoming. The professional and ethical standards of the Albanian media remain low. Measures to be under discussion with international community partners but have not yet been implemented.

Journalists are still subject to threats of prosecution for libel or defamation, which carry severe penalties. Defamation remains subject to prison sentences of up to three years. Although prison sentences are no longer applied, and an amendment of the Penal Code to abolish custodial sentences is planned, Albania has not yet adopted appropriate legislation on defamation and needs to amend its penal code to remove imprisonment as an option for punishment for defamation.

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

A liberal law on NGOs has led to a proliferation of Albanian **civil society organisations** which operate without government restriction. There are some examples of successful public campaigns by civil society actors to counter public political apathy.

However, civil society actors in Albania suffer from a lack of sustainable resources, a lack of organisational capacity and skills (particularly advocacy skills) and the absence of a tradition of involvement in policy-making. For these reasons NGO dialogue with Albania's government remains weak. Albania would benefit from a government policy which actively encourages NGO involvement in the mainstream decision-making process. Civil society actors would also benefit from forming closer ties with peer organisations regionally.

Economic and social rights

Concerning **women's rights**, legal provisions exist for equal rights in a number of fields of life such as social insurance and education. The 1995 Labour Code (Art. 9) sets out a guarantee of non-discrimination in both the public and the private spheres. The Labour Code and the Gender Equality Act of 2004 refer to the principle of equal treatment of women and men, provide that employers must render equal pay for work of equal value and are applicable to both the public and the private sectors. Labour legislation accords special protective measures for pregnant and breastfeeding workers over and above the general protective measures in forces for all workers. Government financial support promotes women's employment, in particular helping disadvantaged women find long-term employment. These include victims of trafficking, Roma women and girls, the disabled and divorced women with social problems.

However, women are still subject to numerous forms of discrimination in economic and social life and remain under-represented in political and economic decision-making processes. Women's participation in the labour market is low and limited to certain sectors. Although the

Gender Equality Act specifically aims to eliminate direct and indirect discrimination, it does not define these concepts. Mechanisms to enforce the principle of equal treatment of women and men, such as the State Committee on Equal Opportunity, are relatively weak. Forced marriage and domestic violence against women are not specifically addressed by government strategy or by legislation and continue to be a serious problem. At least a third of women in Albania are estimated to have experienced physical violence within their families.

Children's rights are generally protected by current legislation. A National Plan of Action for Children is in place and a focal point for children has now been designated at the Ministry of Labour, Social Affairs and Equal Opportunities. However, in practice protection is limited. Several cases of child trafficking and child abuse, including sexual abuse, have been reported. Children kept at home are deprived of their right of education. Article 7 of the European Social Charter concerning the right of children and young persons to protection is not fulfilled in that the authorities' measures to protect minors from sexual exploitation have so far had limited effect. Establishing a national child protection system and strengthening efforts to combat poverty could improve the situation.

Albania achieved full enrolment in basic **education** at the start of transition, but began with among the poorest enrolment rates in secondary and tertiary education in the region. In the last three years, modest improvements in enrolments rates have been made at all education levels. Many private schools have opened, mostly in the larger towns. The government has announced major reforms to improve Albania's low education levels. Limited measures have been taken to increase wages in the public education system. The government has announced plans to greatly increase the education budget.

However, on average children only attend school for 9.6 years: this is almost 5 years below the OECD average. Measures are not in place to control the quality of private education at primary, secondary and tertiary levels (*see also Education under Social Policies.*)

Concerning **socially vulnerable persons**, blood feuds and related crime continue, in particular in the north of the country. The main grounds for feuds remain disputes over property and trafficking in persons. Implementation of a law providing for the establishment of a national coordination council to develop a national strategy against the problem and to coordinate activities of relevant government agencies has not yet begun. Concerning **disabled persons**, initial steps have been taken for the implementation of the National Strategy on People with Disabilities. A contact group has been set up to co-ordinate ministries involved. A decision has also been taken to increase state benefits for disabled people. However, much further work is needed. The setting up of a community centre in Tirana has allowed admissions to institutions for stationary mental health care to be reduced by 40%. It is intended to replicate this model.

In the area of **labour rights and trade unions**, workers have the right to form independent trade unions. The Labour Code regulates the establishment of such trade unions and a legal framework exists for mediation, conciliation and arbitration. The position of trade unions is undermined by the weakness of the industrial sector, the dominance of very small enterprises, high unemployment, significant emigration and a substantial informal economy. Despite the fact that employment is mainly in the private sector, the state still plays a dominant role in organising the economy and social dialogue. The main body for social dialogue is the National Council of Labour. Albania's denial of the right to strike to civil servants and some other categories of employees is not in line with Article 6 of the European Social Charter, which concerns the right to bargain collectively.

As regards **property rights**, the State Committee for the Restitution and Compensation of Property has been transformed into the Property Compensation and Restitution Agency, becoming part of the executive whereas previously it had been responsible directly to parliament. This has the potential to make the administration of property rights more efficient. A new law offers the residents of dwellings constructed without permission on state land the opportunity to legalise them against the payment of a fee, even if there are other claims on the land. Part of the fee contributes to the compensation fund for former owners. This mechanism needs to be tested but could contribute to establishing clear property rights and bringing more people into the formal economy.

However, registration and restitution of property confiscated during the communist era remain a serious concern. Registration of much valuable coastal and urban property has remained particularly slow. The deadline for submitting property claims has been further extended until the end of 2008. This issue is a key European Partnership priority, reflecting the fact that legal certainty on property ownership is vital to fulfil SAA commitments and is a precondition for the domestic and foreign investment needed for economic development.

Minority rights, cultural rights and the protection of minorities

In the area of **cultural rights**, Albanian legislation recognises 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. A spirit of tolerance in relation to minorities prevails. Protection of minorities has been recently placed under the direct responsibility of the Prime Minister. Albania has made some effort to create a legal framework to protect minorities, and it has provided schools and classes for certain minorities in specific areas. Albania recently signed the UNESCO Convention on the protection and the promotion of the diversity of cultural expressions.

However, implementation of the Council of Europe Framework Convention for the Protection of National Minorities remains incomplete. Minority language education is not yet available in all areas where there is a demand. There has been little progress on the administrative use of minority languages, use of traditional names and access to media for minorities. The lack of reliable statistical data on the size of minorities hinders the development of policies to protect them. The work of the Special State Committee on Minorities continues to be hampered by a lack of clear rules concerning its composition and mandate. Albania has not signed the European Charter for Regional and Minority Languages.

There are an estimated 95,000 Roma in Albania. A National Strategy for the Improvement of Living Conditions of the **Roma** Minority is in place. Initiatives on labour integration, education and children's registration have targeted specific Roma groups under the strategy. Regional information activities and discussion round tables have been held.

However, the disparity between the social and economic situation of Roma and that of the rest of the population is increasing. 78% of the Roma population are living in poverty and 39% in extreme poverty. Only 12% of the Roma are enrolled in secondary school, compared to a national average of 81%. The situation of the Roma community in Tirana has notably worsened in recent months. There are currently about 40,000 Roma people in need of social and economic support in Tirana.

The government's Roma strategy suffers from a lack of human and financial resources for implementation. The Ministry of Labour and Social Affairs (MoLSA) has allocated three civil

servants to monitor its implementation. Five other ministries are involved in the implementation of parts of the Strategy (Ministries of Health, Culture, Education, Transport and Interior).

Public information on the existence and content of the Strategy remains weak in Albania's twelve regions. The Roma community suffers from a lack of acknowledgement by local authorities in the regions of their situation and a lack of civil society organisations to represent their interests. Social factors and the mobility of certain groups make lack of access to education and health services, especially vaccination, a particular problem. Weak or non-existent birth registration of Roma children as well as lack of personal documents makes them particularly vulnerable to human trafficking.

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

2.3. Regional issues and international obligations

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 **International Criminal Court** and the United States regarding the conditions of surrender of persons to the court" adopted by the Council of the EU in September 2002. No new developments have taken place in this respect.

Regional cooperation and good neighbourly relations form an essential part of the process of Albania's moving towards the European Union.

Albania has continued to play an active and constructive role in the region. It is an active member of multilateral regional initiatives in South East Europe, including the Stability Pact, the South East Europe Cooperation Process, the Central European Initiative, the Adriatic-Ionian Initiative, the Border Security Initiative and the Black Sea Economic Cooperation Organisation. Albania is committed to the establishment of the Regional Co-operation Council. In 2006, Albania held the presidency and hosted the summits of the Central European Initiative and the Adriatic-Ionian Initiative. Albania is party to the Energy Community Treaty which entered into force in July 2006. It also signed the agreement on the European Common Aviation Area in June 2006.

Albania is actively participating in the negotiations on the establishment of a regional free trade agreement within the framework of an enlarged and amended Central European Free Trade Agreement (CEFTA), which were launched in April 2006. Albania has free trade agreements with all countries in South-East Europe. It also has a free trade agreement with Kosovo.

Albania has further developed its **relations with neighbouring and other countries** in the region:

Relations with the *former Yugoslav Republic of Macedonia* continued to be considered a priority. Reciprocal high level visits have been accompanied by the signing of cooperation agreements in the fields of police cooperation, transport, energy, defence, tourism, culture, information, and the opening of an additional border crossing point.

Relations with *Montenegro* have continued to be very good. Albania was amongst the first countries to recognise Montenegro's independence following the May 2006 referendum and

plans to open an embassy in Podgorica. Cooperation agreements on railway and lake transport, and a Memorandum of Understanding for Cross-Border Development of Shkodra Lake have been signed.

Relations with *Croatia, Bosnia and Herzegovina* and *Serbia* have been positive and stable, although their full potential in terms of trade and co-operation has yet to be realised.

Albania has maintained a constructive policy towards *Kosovo*. Mutual high-level visits have signalled Albania's more active engagement on this issue. At a March 2006 meeting with the EU Troika, Albania made clear its position on the future of Kosovo, which is in line with that of the international community.

Italy remains Albania's main commercial partner, with 40% of Albania's trade, and its largest bilateral donor. Italy has invested substantially in areas such as infrastructure, transport, health and energy. However, legal and administrative problems have obstructed sizeable investment projects promoted by Italian companies in the infrastructure sector.

Greece remains Albania's second largest trade partner, and a significant bilateral donor and investor. Relations with Greece are considered strategically important by the Albanian Government. Bilateral relations have continued to be good and mutual high-level visits have taken place. A 5-year development cooperation agreement was extended until 2011.

3. ECONOMIC CRITERIA

3.1. Introduction

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, and the capacity to cope with competitive pressure and market forces within the Union.

3.2. Assessment in terms of the Copenhagen criteria

3.2.1. The existence of a functioning market economy

Economic policy essentials

Cooperation with international financial institutions continued to be an important anchor for economic policies. The previous IMF programme was successfully completed in November 2005 and a new three-year programme started in February 2006. The prudent monetary policy remained unchallenged and contributed to keeping inflation under control. The fundamentals of fiscal policies aimed at fiscal consolidation were pursued further. Consensus on the fundamentals and directions of economic policy was broadly maintained.

Macro-economic stability

Albania's macroeconomic environment continued to be characterised by strong GDP growth and subdued inflation. However, the country suffered frequent power supply shortages for almost four months at the end of 2005. This was mainly as a result of the strong dependence on hydro sources for electricity supply and the failure of tenders for purchasing additional electricity from abroad. The repercussions of the crisis on economic growth were estimated at

0.5% of GDP in 2005, when combined with weakening economic activity in the construction sector and deceleration in export growth. The estimate of real GDP growth was thus revised downwards to 5.5% for 2005. Overall, Albania's stable macroeconomic environment was maintained.

The share of people living in poverty decreased from around 25% in 2002 to around 18% in 2005. This represents more than 220,000 people lifted out of poverty during these three years. This is mainly due to sustained growth in disposable income. Considerable progress continued in reducing poverty.

The trade deficit widened to 24.1% of GDP in 2005, compared to 21.7% of GDP in the previous year. Due to appreciation of the Albanian lek and stronger competition in the textile industry, growth in export of goods declined to 9% in 2005 from 23% in 2004. For the same period, imports of goods grew at 15%, mainly on the back of sustained growth and electricity imports at the end of the year. During the first semester of 2006, the trade deficit widened further by 19% on an annual basis. Part of this continuing deterioration also likely reflects the improvements in customs administration, with more goods going through the formal channels. Export base in Albania remained very low, narrow and undiversified, mainly due to a lack of non-price competitiveness, resulting -among others- from poor infrastructure and uninviting business environment. Due to deterioration in the trade balance, the current account deficit (excluding official transfers) recorded an increase to 7.8% of GDP in 2005, compared to 5.5% in 2004. In general, external deficits markedly widened.

Transfers from abroad and other remittances were estimated at around 14.6% of GDP in 2005, 19% higher compared to 2004. Private transfers have thus become an important and relatively stable source of income. According to national sources, they have reached 33% of disposable income of an average family and almost 40% in rural areas. Gross reserves continued to rise throughout 2005. This was partly due to inflows of private transfers and foreign direct investment (FDI), but also to the Bank of Albania's foreign exchange market interventions in the first half of the year. Foreign currency reserves reached €1.2 billion at end-of 2005, a 17% increase compared to the end of 2004. This is equivalent to around 4 months of imports. External debt declined to 17.6% of GDP in 2005, from 18.0% in 2004. In general, significant remittances and other transfers from abroad continued to cover large part of the trade deficit.

The unemployment rate (based on official data) declined marginally to 14.2% in 2005 from 14.4% at end-of 2004. Data for the first quarter of 2006 indicate a further decrease of the unemployment rate to 14%. The exact rate of unemployment is nevertheless difficult to assess due to significant informal employment, particularly in the agricultural and construction sectors. It can be concluded that the labour market situation improved marginally.

In July 2005, the Bank of Albania (BoA) changed the direction of its operational instruments by starting to perform reverse repurchase agreements, injecting additional liquidity into the banking system. The direction of the BoA's intervention changed again in the first quarter of 2006, as it withdrew excess liquidity from the commercial banks. The key interest rate had remained unchanged until July 2006, when the BoA raised it to 5.25%, on the back of rising inflationary pressures and in order to contain the strong expansion in credit growth. The BoA examined prerequisites for a gradual change in its monetary policy strategy towards an explicit inflation targeting regime with the aim of enhancing transparency and credibility of its monetary policies. Overall, the monetary policy pursued by the BoA was credible.

Buoyant growth in money supply, peaking in mid 2005, slowed down. A reduction of public borrowing was partly offset by a massive boom in credit induced by high demand for monetary assets. Annual growth of the monetary aggregate M3³ thus decreased from 19% in mid-2005 to 14% in the last quarter 2005 and further down to 11% in May 2006. Appreciation pressures of the Albanian lek against the euro eased towards the end of 2005. The lek appreciated against the euro by approximately 3% in nominal terms during 2005, and remained relatively stable vis-à-vis the euro during the first eight months of 2006. Overall, growth of money supply moderated.

Average annual inflation stood at 2.5% in August 2006. It followed an upwards trend since July 2005, when CPI inflation reached a low of 1.8% (year-on-year). It peaked in October 2005 (3.3% year-on-year) due to persistent pressure from rising oil prices on certain domestic prices. Average inflation reached 2.4% in 2005, remaining at the lower end of the BoA's informal 2-4% target range. After a temporary decline in the first quarter of 2006, modest inflationary pressures resumed in the second quarter of 2006. These were derived from external developments, continuing excess liquidity in the banking sector and reduced supply of agricultural products. As a result, the Albanian lek appreciation moderated vis-à-vis the euro. In general, inflation remained moderate.

In October 2005, the IMF and the authorities agreed on the remainder of the 2005 budget and key parameters of the 2006 budget. These envisaged a set of reforms for the tax administration and public finance management. These measures aimed at improving fiscal discipline, tax administration efficiency, tax collection as well as public expenditure and debt management. Preparation for a thorough analysis and reform of the pension system also gained momentum. The 2005 budget execution had been more favourable than expected, mainly due to better performance of revenues and only moderate increases in expenditures. At the end of 2005, the general government deficit had reached 3.6% of GDP against 5.1% in 2004. Given a favourable performance of the budget in the first half of 2006, a supplementary budget was adopted for the second half of the year to match higher tax revenues and customs duties collection. It envisaged additional expenditure of 2.2% of GDP mainly for infrastructure development. Total public debt declined to 55.3% of GDP in 2005 compared to 56.5% in 2004. However, very limited progress has been achieved in strengthening public debt management. The Ministry of Finance still lacks a comprehensive debt management strategy and an adequate risk management capacity. These would enable the maturity of the domestic debt to be lengthened and new debt instruments to be introduced. Fiscal consolidation has generally continued, but a more vigorous position for further debt reduction remains critical.

The monetary policy of the BoA was broadly neutral over most of the reporting period with a minor upward adjustment of the main policy rate in July 2006. Further fiscal adjustment was pursued. Overall, the macroeconomic policy mix has remained broadly adequate.

Free interplay of market forces

The private sector accounted for approximately 80% of GDP in 2005, i.e. 5% of GDP higher compared to 2004. In the first quarter of 2006, private sector employment accounted for more than 80% of all working people, out of which 72% worked in the agriculture sector. The number of the new registered enterprises rose by almost 10,000 in 2005, a 4% increase

³ M3 (broad money): measure of money in circulation which includes deposits in the Albanian lek + deposits in foreign exchange + currency outside the banking system.

compared to 2004. Another 7,500 new businesses were established and registered over the first five months of 2006, confirming the favourable trend towards a less informal economy. Private businesses were mainly active in trade (49%), services (24%), industry (11%) and transport (10%). In general, the private sector has expanded further.

Delays in large-scale privatisation have continued, in particular in the telecommunication and energy sectors. The ratification of the sale agreement that would complete the privatisation of Albtelecom was rejected by the Albanian parliament in October 2005. This led to a review of the sale contract and the tender procedure. The privatisation of Albanian Refining and Marketing Oil failed in the absence of satisfactory bids. The privatisation of the state-owned insurance company INSIG has been prepared. Large-scale privatisation has continued to suffer further delays overall.

Free market entry and exit

Administrative barriers to market entry were reduced in 2006. The average time needed for business registration went down significantly from 30 days to 8. Other administrative formalities have been simplified and the Commercial Register decentralised. These measures were introduced on the basis of the new Action Plan for the Removal of Administrative Barriers, adopted by the Council of Ministers in March 2006. However, several major challenges still remain, especially the relatively high cost of starting and closing a business, the limitations of cadastral records and the size and scope of the informal economy⁴. The business climate has continued to suffer from a weak legal environment such as a lack of clearly defined property rights, from poor infrastructure, unreliable power supply and widespread corruption. The government appeared committed to addressing the latter. Overall, certain progress has been achieved in improving the business environment, however, despite determined government action, much still needs to be done in terms of combating corruption.

Adequate legal system

Delays in the courts have continued to have considerable negative effects on the business climate. This is due to the difficulty of obtaining court rulings and enforcing contracts on issues such as commercial litigation or enterprise liquidation. Land ownership rights have not yet been guaranteed, particularly in urban and coastal areas. The related legal uncertainty on collateral recovery still impedes bank lending, investment and economic development. Enforcement of property rights has continued to be weak and only marginal progress has been achieved in improving the efficiency of the judicial system.

Sufficiently developed financial sector

Total credit reached 14.6% of GDP at the end of 2005, compared to 9% of GDP at the end of 2004. The credit-to-deposit ratio surged further, up from 19% in 2004 to almost 29%. Credit provided to the private sector also recorded a rapid expansion, growing by 74% in 2005. This was twice as fast as in 2004. Fast growth in credit continued in the first half of 2006, reaching 65% year-on-year. Foreign currency denominated loans accounted for around 75% of the total lending stock in 2005. This continued to raise potential foreign exchange risks, requiring very prudent risk management in Albanian banks. Preparation for establishing a credit information bureau has advanced, with a view to increasing the availability of credit to small and medium-

⁴ The Institute of Statistics (INSTAT) estimated the percentage of value added produced by non observed economy at 30.6% (average for years 2001-2003).

sized enterprises by improving the efficiency of credit risk management. Overall, the level of financial intermediation has increased from relatively low levels.

The banking sector consists of 17 banks, of which three are fully-owned by local investors and 14 by foreign or joint-ventures. All banks are under private ownership, except for the state's 40% stake in the United Bank of Albania. The concentration of the sector remained relatively high, with the three largest banks in Albania dominating the market with almost three quarters of total deposits and almost two thirds of total assets at the end of 2005. The lending-deposit interest rate spread stood at 8% in mid 2006 for lek-denominated loans and deposits. The average return on assets increased to 1.4% in 2005, and the average return on equity to 22.2%. The share of non-performing loans to total credit remained moderate at 2.3% at the end of 2005 and increased to 3.0% by March 2006. The capital adequacy ratio decreased by 3% to 18.6% in 2005, which is still well above the minimum level of 12% established by the BoA. The banking sector has remained sound, liquid and profitable, with relatively high degree of concentration.

The new law on the banking sector was approved by the Council of Ministers in July 2006 and was expected to be enacted before the end of the year. It brings the banking legislative framework broadly in line with international standards. The regulatory, governance and supervisory framework for the non-bank financial sector remained weak, lacking sufficient capacity, transparency and independence. Certain progress has however been recorded in preparing for the establishment of the new Financial Supervision Authority. This is expected to supervise insurance, pensions and capital markets. Financial regulation and supervision have generally improved.

3.2.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

Economic growth was robust and reached a satisfactory degree of resilience, despite the energy crisis at the end of 2005. Fiscal indicators have continued to improve, monetary policy has been prudent and managed to keep inflation low. However, the deterioration in trade and current account deficits has increased the mid- and long-term vulnerability of the country's external position. The booming credit growth has remained a challenge in view of these external account imbalances. Overall, Albania has broadly achieved macroeconomic stability. This has contributed to its progress towards being a functioning market economy.

Sufficient human and physical capital

Primary education has been almost universally established. However, secondary and tertiary net enrolments stood at 55% and 18% respectively in 2005. The average school attainment increased to 9.6 years in 2005 (from 8.6 years in 2002), which is almost 5 years less than the OECD average. Serious educational and skill gaps exist between gender and regions (urban/rural). Education attainment has nevertheless increased slightly but overall educational and skill levels remain low.

Labour market policies have led to some encouraging results in efforts to formalise employment and improve the functioning of the labour market. However, the effectiveness of programmes for attracting jobseekers has remained constrained by inadequate design, lack and irregularity of funding and insufficient training capacity. Labour market policies overall have continued to maintain a broadly flexible framework.

Adequate sectoral and enterprise structure

Management of public investment was passed from the Ministry of Economy to a newly established Directorate of Public Investment Management at the Ministry of Finance in 2005. This was to strengthen procedures and the institutional framework for public investment management planning, execution and monitoring. Albania's legal framework for procurement, privatisation and concessions has nevertheless remained weak. A slight fall in public investment to 4.6% of GDP was balanced by a respective increase in private investment, reaching 19% of GDP in 2005. FDI declined from 4.6% of GDP in 2004 to 3.1% in 2005. However, the figure for 2004 was boosted by the privatisation of the Savings Bank. Most of the FDI was directed to industry (28%) and transport (22%), and the remainder to telecommunication (18%), the service sector (17%) and other sectors (15%). Gross fixed capital formation has remained stable overall, representing 23.6% of GDP in 2005.

The quality of the infrastructure network has remained inadequate, hindering economic development. Transport and communication sectors accounted for about 36.5% of total public investment in 2005, with the largest share (89%) allocated to road infrastructure. Around 67% of the road network was in poor or very poor condition in 2005, with 17% in fair and 16% in good condition. Almost two thirds of investments in road infrastructure have been allocated to new capital expenditure projects and only one third to maintenance and repair needs. The latter is estimated to be only 60% of what is needed. Infrastructure continues to require considerable investment.

The service sector accounted for more than 54% of GDP in 2005, followed by agriculture (23%), industry (14%) and construction (9%). Industry's share of total production increased by about 3% in 2005. The share of agriculture, construction and services in the economy declined by approximately 1% of GDP each. The Albanian economy has continued to be geared towards the service sector, although the agriculture sector retains a significant share in total production and employment.

The small and medium-sized enterprise (SME) sector accounted for about 99% of the total number of active private enterprises in 2005, contributing 64% to GDP and representing 66% of total employment. SMEs' access to bank credit has improved, but remains below requirements needed. A lack of proper financial reporting and accounting at the firm level as well as excessive credit and legal risk related to collateral enforcement are problems to be addressed. SMEs have continued to form the bulk of Albania's private sector activity.

The operational and financial performance of a number of state-owned enterprises has strengthened⁵. However, the reform of their regulatory and corporate governance framework has not been completed. Significant deficiencies have continued to exist in the utility and railway sectors and the energy sector particularly remains one of the major risk factors for the economy. Measures to enhance electricity supply over the medium and long term and to improve the financial performance of KESH, the state power utility are needed to mitigate further negative impacts of major sector inefficiencies on economic development. The transmission network capacity and alternative energy sources to hydropower are also key factors. Overall, a high degree of vulnerability of the energy sector represented a significant source of risk to economic development.

⁵ Except for KESH, the state power utility, and the Albanian Railways, whose operational and financial performance significantly deteriorated in 2005.

State influence on competitiveness

The Competition Authority has continued its efforts to supplement the primary legislation in force by issuing a number of implementing regulations and explanatory guidelines in line with EC competition principles. Following the adoption of the Law on State Aid in April 2005, the institutional capacity in this area was further strengthened by the establishment of the State Aid Commission in March 2006 (a decision-making body with powers to authorize individual cases and schemes of state aid). In 2005, public subsidies represented a relatively low 1.6% of total expenditure of the budget, representing 0.4% of GDP compared to 0.7% of GDP in 2004. Further progress has been achieved in enforcing institutional capacity and the legal framework for competition and state aid.

Trade integration with EU

The value of exports and imports of goods and services rose to 67.4% of GDP in 2005, compared to 64.7% in 2004. Albania continues to be an import-oriented economy with total imports accounting for about 45.8% of GDP and total exports for only 21.6% of GDP in 2005. Trade openness has increased in 2005, but remained relatively low. The EU remained the main destination of exports in 2005 with 84% of total exports. Imports from the EU accounted for about 70% of imports. Trade with the countries of South East Europe has intensified substantially, helped by free trade agreements concluded in previous years. Exports to these countries increased by 19% in 2005 and accounted for approximately 9% of total exports according to national sources. Imports from this region recorded an even higher annual growth of 32% in 2005 and accounted for almost 15% of total imports. Overall, trade integration with the EU has remained high and regional trade integration has risen.

The real exchange rate of the Albanian lek vis-à-vis the euro slightly appreciated by 3% in 2005, based on consumer prices. In the absence of reliable data on unit labour cost and profitability in the manufacturing sectors, change trends in labour productivity and price competitiveness based on real unit labour cost are difficult to trace.

4. EUROPEAN STANDARDS

This section examines Albania's capacity to gradually approximate its legislation and policies with those of the *acquis* related to the internal market, sectoral policies, and justice, freedom and security, in line with the Stabilisation and Association Agreement and the European Partnership priorities. It also analyses Albania's administrative capacity

4.1. Internal market

4.1.1. Free movement of goods

In parallel with its trade commitments, Albania has undertaken obligations through the SAA to move closer to European standards in the areas of standardisation, metrology, accreditation, conformity assessment, and consumer protection.

Progress has been reasonable in the area of **standards and certification**. By mid-2006 Albania had adopted 8,348 European standards (ENs), representing 59 % of all of the ENs of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC), in line with the targets of the National Plan for

Approximation of Legislation and implementation of the SAA. Priority continues to be given to adoption and implementation of those ENs that are harmonised under the New Approach directives and give presumption of conformity to the essential requirements of the directives. However, line ministries responsible for approximation with EU technical legislation have been slow to transpose the relevant EU directives.

As regards conformity assessment, progress has been made in the field of certification of quality management systems. The number of Albanian companies certified to the requirements of ISO 9001:2000 standards, continued to grow. The first privately operated testing and certification bodies have now been established, mainly in the food and construction sectors. The limited size of the market means that third party certification is often not yet commercially viable.

There has been further progress as regards the functioning of the General Directorate of Standardisation (GDS) which is now an affiliate member of CEN and CENELEC and intends to achieve full membership by 2008. The 1999 Law on Standardisation has been amended to allow for the establishment of a supervisory board of GDS - to include representatives of all stakeholder groups in Albania - which will monitor GDS activities and increase its independence from the Government. A further proposed amendment would allow Albania to start separating certification from GDS activities (target 2007). GDS has enhanced its cooperation with ministries in the adoption of ENs and in withdrawing the mandatory status of Albanian standards deriving from government decrees. Mandatory standards still exist for petroleum, gas and construction products. GDS has made considerable effort to improve the awareness of the private sector of the benefits of standardisation and certification, which has led to an increase of EN sales.

Some progress can be reported in the area of accreditation. Despite entry into force of a government decree separating accreditation from standardisation in 2004, the national accreditation body – the Directorate of Accreditation (DA) – only started operations in 2005. Changes in the staff of the DA, and improved infrastructure, have helped speed up progress. The DA has been admitted as an associate member of the European Co-operation for Accreditation (EA). The objective of achieving full membership of the European Cooperation for Accreditation needs first to be achieved in the field of laboratory accreditation, with other fields to follow. Testing laboratories represent the overwhelming majority of potential accreditation clients for the DA at present. The relevant accreditation know-how and practical experience of DA staff will have to be further developed. Preparations to align with the *acquis* in the areas of standardisation and certification are underway.

There has been limited progress on **metrology**. The national strategy on metrology for the period 2006-2015 has been drafted and will be adopted by December 2006. Most Directorate General of Metrology and Calibration (DGMC) staff have been trained on technical, management and quality issues. An upgrade of laboratories is underway. A new law on metrology has been prepared, but not yet adopted. Provisions of this new draft law should ensure division of the verification and certification functions of legal metrology from market surveillance activities. Closer cooperation between all stakeholders would help Albania's national technical infrastructure function better. Preparations have begun in this field.

There has been limited progress in the area of **market surveillance**. The Department of Market Surveillance in the Ministry of Economy, Trade and Energy has been upgraded to a directorate, has been strengthened and has taken further steps to increase public awareness on

consumer rights. The level of information nonetheless remains generally poor. Albania now needs to strengthen inter-institutional cooperation and clarify the position of the Ministry of Agriculture and the Consumer Protection Department to avoid duplication or gaps in coverage. A plan to align market surveillance legislation with the *acquis* has not yet been finalised. Preparations in this area remain at an early stage.

There has been notable progress in the area of **consumer and health protection**. The incorporation of the Consumer Protection Department into the Department of Market Surveillance within the Ministry of Economy, Trade and Energy is a positive step as enforcement and regulatory issues now fall under one separate and more coherent Surveillance Directorate. However, the detailed legal powers of the Department still need to be clarified. Access for all consumers has not yet been established. Weaknesses remain as regards allocation of financial resources and staff to the department. Adoption of a market surveillance policy and of the 2006-2008 National Strategy on Consumer Protection and Market Surveillance is still awaited. Preparations in this area have just been initiated.

4.1.2. Movement of persons, services and right of establishment

Albania has undertaken significant commitments under the SAA as regards the movement of workers, freedom of services and freedom of establishment.

No developments can be reported in the area of **movement of persons**. No progress has been made in the field of the coordination of social security systems. Preparations in the field of movement of persons are at an early stage.

There has been some progress in the area of freedom of **services**. Albania's economy is relatively open to foreign companies and investments, and related progress on freedom of establishment has a positive impact in this field. Progress has been made in the banking sector. Investment by foreign banks has had positive impact on both banks' governance and quality of services and the banking network has expanded throughout the country. A new banking law was adopted by the Council of Ministers in July 2006. However, further efforts are needed to align it with European standards. There has been an improvement concerning the deposit insurance scheme as well as of the bankruptcy framework and of collateral enforcement. The Ministry of Public Works, Transport and Telecommunication has started the second phase of liberalisation of postal services and is preparing a Council of Ministers' decision on gradual liberalisation.

The regulatory framework needs to be adapted in order to remove remaining legal barriers for EU natural and legal persons. There remains no clear distinction, as required for SAA implementation, between operators providing services in a temporary manner and those providing services through a permanent establishment in Albania. The Law on Postal Services is not yet aligned with the *acquis*. An independent regulatory structure in the field of postal services has not yet been established. Preparations are underway in the areas of freedom to provide services.

Some progress can be reported as regards the **right of establishment**. A new Action Plan on Regulatory Reform aiming to remove administrative barriers has been adopted by the government. Discrimination on registration fees to be paid by foreign companies has been removed, in line with SAA requirements. Procedures for registration of businesses have been simplified. Time needed to register a business decreased from 42 to 8 days, and the circulation

of information from the commercial register to tax offices is now mandatory. A new law has decentralised the commercial register, allowing businesses to register at district courts.

However, firms wishing to set up in Albania still face resistance from existing establishments. The unresolved issue of property rights hinders certainty, discouraging establishment (*see Economic and social rights*). Preparations in the area of right of establishment are at an early stage in Albania.

Little progress can be reported in the field of **company law**. The Ministry of Finance organised further training and certification of auditing activities for Albanian Certified Accountants. However, considerable improvement in the implementation of accounting and auditing standards is needed. Legal procedures between branches of the administration concerned in setting up a business have not yet been unified. Preparations in this area are underway.

4.1.3. Free movement of capital

There has been some progress in the area of **capital movements**. Work has started on the drafting of a Foreign Exchange Law to regulate the capital movements regime, which aims to progressively liberalise the capital account in line with SAA obligations. However, significant restrictions remain, in particular on the acquisition of real estate by foreigners as well as portfolio investments and other short-term capital movements. This aspect will need attention to ensure compliance with SAA obligations. A draft law for establishment of the Authority for Financial Supervision has been adopted by the Council of Ministers. This Authority will incorporate insurance and pension fund supervision, replacing the current Securities Commission, Insurance Supervisory Authority and Institute on Private Pensions. The Authority will report to the Parliament. The creation of this body will strengthen non-banking financial supervision. The current supervisory agencies are weak and lack independence. The Bank of Albania continues prudential monitoring of the financial sector. In this area, Albania has started to prepare its targets, which relate in part to commitments it has made under the SAA.

Some progress can be reported in the area of **payments systems**. Automated payment systems are still being developed, but cash remains the major means of making payments in Albania. The Post Office provides services for low-value domestic payments and some money transfer operators are specialised in cross-border services. The Bank of Albania continues to operate a Real Time Gross Settlement system for inter-bank payments, the Albania Interbank Payment System (AIPS). The AIPS was established to provide real time processing and settlement for high value payments. The Bank also offers clearing services for retail payments, currently for payment orders and cheques. An automated clearing house has just been completed, with settlement amounts to be calculated on a multilateral net basis. However, despite some individual card facilities linked to international systems, card infrastructure still does not allow full interoperability. Reforms in the area of payment systems remain at an early stage.

4.1.4. Customs and taxation

Limited progress can be reported in the area of **customs rules**. Reference prices have recently been established and the transaction value is rejected in 20% of cases. Legislation and implementation on customs valuation needs to be in line with WTO principles and GATT methodology on valuation needs to be respected. The Albanian tariff is based on the Combined Nomenclature 2005, but in accordance with the Interim Agreement the latest

version of the Combined Nomenclature will need to be applied to the classification of goods in trade between the parties from the entry into force of the Agreement. Further alignment to EU legislation and procedures is needed, particularly in the area of simplified customs procedures and transit procedures, customs warehouses (the new legislation in this area is further way from the *acquis* than the former law) and binding tariff information. In this area, Albania has started to prepare.

There has been significant progress in the strengthening **administrative and operational capacity** for customs. In 2005 the Customs Administration collected 108% of target revenue. This positive trend was confirmed in the first half of 2006. Considerable progress has been made in implementing the ASYCUDA computerised customs declaration and processing system. More than 95% of all customs declarations are now processed automatically through ASYCUDA. ASYCUDA's selectivity module has been implemented and a risk analysis system has entered into operation in Tirana and Durres customs houses.

Progress has been made on control and management of origin. The customs Authority has a new web page including free trade agreements signed by Albania. An annual training programme based on the needs of the administration has been drawn up for 2006. The increase of the basic salaries adopted by the Council of Ministers is a positive step towards tackling administrative corruption. Some progress can be reported as regards the customs service's role in fighting organised crime, drugs and smuggling. The Customs maritime branch is being reactivated and some patrol boats have entered into service. Cooperation between police and customs has been strengthened and several effective actions have taken place. A joint force with the police is now operational.

The high turnover of staff requires continued monitoring, with 90% of all managerial staff changed since mid-2005. Protection of officers' employment rights has been reduced following changes in the overall personnel legal framework. All authorisations for customs warehouses have been revoked, which is harmful to honest traders. Further efforts are needed on effective control of IPR and dual-use goods. Improvement in the management of origin needs to continue. Customs infrastructure, especially the Tirana customs house, requires urgent improvement. An effective customs system is vital for the implementation of the Interim agreement and the SAA. Overall, preparations in the area of customs are moderately advanced.

Some progress can be reported in the area of **taxation**. VAT was introduced in 1996 and the VAT rate is 20%. VAT refunds on exports have been simplified by no longer requiring an import document of the importing country. Waiting time for VAT repayments has been reduced and a general audit plan for 2006 has been prepared. Some modifications have been made to the VAT system, in particular exemptions. Sales of new houses are now exempt, as well as gambling enterprises. A risk analysis system is being introduced for VAT enforcement.

The corporate income (profit) tax rate has been reduced from 23% to 20%. The small business tax rate has been decreased from 3% to 1.5%. The number of tax scales for personal income tax has been reduced from six to four, and the maximum tax rate reduced from 25% to 20%. The tax collection rate has increased. The new appeal procedure allows the business sector to be represented in the commission dealing with complaints. Computerisation of tax offices is progressing further and a new network is being introduced, covering 12 district tax offices (including 80% of taxpayers). Smuggling of excisable goods seems to be decreasing.

Tax reforms in the field of direct taxation need to begin, particularly taking into account the company tax directives. A Treaty Network based on the latest OECD model needs to be completed. The Albanian authorities have not yet undertaken a gap analysis aimed at identifying existing harmful measures which could contradict the principles of the Code of Conduct on business taxation. A comprehensive tax collection and control strategy has not yet been adopted. This should include a review of the role and function of the Tax Police.

Overall, further alignment with EU legislation and best practices is still needed. The size of the grey economy and the fight against fraud require further attention. The high turnover of staff in the tax administration means accumulated know-how needs to be re-established. New laws limit employment guarantees to staff, making them more vulnerable to outside pressure.

Overall, preparations in this area are being started.

4.1.5. Competition

Some progress can be reported in the area of **anti-trust**. The Competition Authority (ACA) has issued regulations and explanatory guidelines on the control of concentrations, immunity from fines and horizontal and vertical agreements. It also started to assess mergers and acquisitions notified to it. As regards enforcement, the ACA is proceeding with two major files, regarding mobile telephony and car insurance at border crossings, respectively.

Progress has been made in the functioning of the ACA. Staff members have received training and regional awareness raising workshops have been held for the business community. However, it is not clear yet to what extent the Competition Authority may work independently. Most of the staff is recently recruited and thus inexperienced, and the lack of resources means staffing targets have not been met. Further efforts are needed to improve effectiveness of competition control. Albania has undertaken significant commitments in this field under the SAA. Preparations in this area are being launched.

Substantial progress can be reported in the area of **state aid**. Translation of the relevant EU Regulations into Albanian has been completed. In December 2005 the Council of Ministers completed the legal framework in the field of state aid by adopting conditions and procedures for granting regional as well as restructuring aid. A system for electronic notification for authorising, granting and controlling state aid has been installed. The inventory of state aid has been completed and comprises data on state aid granted since 2000.

A State Aid Commission has been created as the decision-making body in this area. It has the power to authorise state aid schemes and individual aids, as well as to order the recovery of incompatible aid. It includes professionals in the field of law and economics who represent civil society or institutions which are not directly involved in providing state aid. The State Aid Department in the Ministry of Economy, Trade and Energy remains in place as an administrative body which directly reports to the Commission. Training has been provided to representatives of central and local administration on the new legal and institutional framework for state aid and their legal obligations.

This area has progressed rapidly and considerable expertise has been developed. The next challenge for the Albanian authorities is to further ring-fence the State Aid department in the Ministry of Economy, Trade and Energy and to clarify the operational reporting line to the

State Aid Commission. Preparations are on track towards meeting SAA commitments in the area of state aid.

4.1.6. *Public procurement*

There has been limited progress in the field of public procurement. In the SAA, Albania has committed itself to align to the *acquis* in this area. Progress in this field is also vital for improving public sector governance, a key European Partnership priority. A new law which takes into consideration the principles and most of the procedures provided for by EU directives is pending in parliament. Some progress has been made as regards organisation of the Public Procurement Agency (PPA). Introductory public procurement training courses have been held for central institutions and city officials. A training unit has been created in order to liaise with public bodies involved in procurement activities throughout the country, including line ministries. The Agency has designed a new website to increase transparency.

The current public procurement legislation neither provides a specific criterion to identify abnormally low offers nor allows use of the most economically advantageous offer criterion. In the absence of an independent body for complaints, efficiency and independence of the review procedures cannot be guaranteed. Political influence and corruption remain due to insufficient investigation and criminal prosecution of procurement offences. Lack of transparency still constitutes an obstacle to the promotion of competition within the private sector, which leads to a few local economic operators holding a key advantage. The PPA remains weak and underfunded, with insufficient staff and little clarity in task attributions. Staff removed recently from the high and middle-management levels need to be replaced.

No particular progress can be reported as regards procurement procedures. The use of direct tender procedure by procurement entities remains too frequent. The Council of Ministers has further increased the threshold value for tendering construction contracts, deepening the gap between EU and Albanian requirements. In awarding public contracts, procuring entities still award tenders solely on the basis of the lowest price. Albania is lagging behind in the field of public procurement.

4.1.7. *Intellectual property law*

Limited progress can be recorded in Albania as regards **intellectual property rights (IPR)**. Under the SAA, Albania is to align to the *acquis* in this area and offer a high level of IPR protection. The General Directorate of Patents and Trademarks has been moved from the Council of Ministers to the Ministry of Economy, Trade and Energy. The Directorate's 13 staff now includes six IP specialists. The Directorate periodically publishes patents and trademark information bulletins to increase public awareness. Albania has signed the Strasbourg agreement on the international classification of patents. A database including all registered trademarks, patents and industrial designs since 1994 is now operational and procedures have been automated, but delays still occur in the publication of registered rights. In the field of industrial property, an agreement on exchange of information on legislation, publications and training has been signed with the Industrial Property State Office of the former Yugoslav Republic of Macedonia.

The copyright office provided for under the law on copyright and related rights of 2005 has been set up but is not operational, which hampers the enforcement of international conventions signed by Albania. The collective management of rights is ineffective because of a lack of resources and capacity. Collection of royalties is rare and collecting societies

therefore need assistance from sister organisations in other parts of Europe to cope with their costs. Piracy and counterfeiting remain widespread. There is a general lack of awareness about IP infringement and the damaging social and economic effects of counterfeiting amongst law enforcement bodies, including the judiciary. Preparations in the area of intellectual property rights are at an early stage.

There has been very little progress in the **enforcement** of IPR in Albania. Further training has been provided to judges and lawyers. A unit specialised in IPR has been established within the investigation department of the customs administration. However, institutional capacity and cooperation remains weak and enforcement actions are therefore very rare. Albanian courts still demonstrate insufficient experience and qualifications in this field, and no specialised judges or exclusive courts exist for intellectual property cases. In this area, the country meets its objectives only partially.

In the IPR law field as whole, government responsibilities remain too fragmented, and a coherent national strategy is required. Work towards fulfilling SAA commitments is at an early stage.

4.1.8. *Social policies*

Employment policies

Only modest progress can be reported in the area of employment. A number of programmes to foster employment have been implemented under the National Strategy for Economic and Social Development. However, their impact has been reduced by lack of proper evaluation.

The challenge for Albania is now to make proper use of its growing labour force by using a multi-sectoral approach to stimulate job opportunities. The main outstanding legislative and regulatory issues remain the creation of a modern legal framework regarding labour law and occupational health and safety and its implementation, creation of a labour inspectorate for the entire country, reform of the pension and social protection system and development of social dialogue.

Gender equality policies should be enhanced, in particular the strengthening of the State Committee on Equal Opportunities and the full implementation of the law on Gender Equality (*see also Political chapter, Economic and Social Rights*).

Albania is at an early stage in this field.

Education

Some progress can be reported in the area of primary and secondary education. National strategies for pre-university education and pre-university vocational training up to 2015 have been approved. The introduction of a new scheme on final exams and entry exams in Albanian universities (State Matura) was a positive development. A pilot scheme for psychological services has started in secondary schools. The use of textbooks has been liberalised, giving a choice to teachers of several sets of material for the same subject.

There has been limited progress in the area of higher education. For example, a working group has been set up to draft a new law to ensure follow-up of the Bologna process. All

institutions have started to implement the Bologna process and the European Credit Transfer and Accumulation System has been introduced. Some measures have been undertaken to increase wages in the public education system.

Despite some recent positive trends (*see Education under Economic and Social Rights*) participation rates in education remain lower than average for the EU and for other countries of the region at all educational levels, but in particular at secondary level. Children in rural areas and girls are particularly disadvantaged. Drop-out rates in the final years of basic education are high, and a large percentage of children leave the school system without achieving any qualifications. Skill bottlenecks do not currently seem to be hindering the development of the Albanian economy, but technical skill gaps are starting to be reported by employers in urban areas where economic activity is more vibrant. In the medium term low skill levels threaten investment and the development of higher-value-added industries and services. Albania's preparations in the area of education are at an early stage.

4.2. Sectoral policies

4.2.1. Industry and SME

Some progress can be reported towards improving the business environment for industry and SMEs. In October 2005 the existing task force for the regulatory reform in respect to improvement of the business climate was re-approved by the new Government. The Government has approved a revised action plan on removing administrative barriers to business. Commercial legislation has been improved by reducing the target time needed for business registration to 8 days.

Albania has started to reform the tax regime and the fiscal burden for SMEs. The simple profit tax rate for SMEs, payment of which involved unfavourable upfront quarterly instalments, has been reduced by 50 % and payment schedules have been improved to reduce tax avoidance. According to Albanian statistical data, the economy has seen a clear rise in new company registrations (9,000 in the first nine months of 2006) partly due to a more favourable tax regime.

Steps have been identified to implement the action plan to reduce the informal economy, such as simplification of licences, permits and certificates but concrete progress remains slow. There has been no progress so far in setting up formal procedures to assess the business impact of planned regulatory measures, but the government aims to introduce such assessments by December 2006.

Albania's capacity for trade policy-making remains weak. Its WTO secretariat in the Department of Economic Co-operation and Trade, now called the WTO Relations and Economic Co-operation Section, is still understaffed.

The Government has established a new umbrella organisation, Albinvest, integrating the Albanian Investment Agency (ANIH), the Small Medium Enterprises Agency (SMEA) and the Albanian Export Agency (ANE) and reporting directly to the Minister of Economy, Trade and Energy. This new structure is in line with government policy to reduce the operational cost of public administration and is expected to enhance sustainability. The capacity of Albinvest to provide effective assistance as a one-stop shop to foreign investors is being tested by an increasing number of trade and investment missions which are visiting Albania.

The new agency has inherited premises and staff of previous bodies, but a Council of Ministers decision on the internal organisation of the agency is still pending.

The company registration and start-up system remains slow, bureaucratic and inefficient. The overall registration and set-up process still involves 7 steps (11 with compulsory licenses included) and an average time of 41 days. There is no online registration and no silence-is-consent principle. Concrete steps to strengthen the Business Advisory Council remain to be taken. No developments can be reported on business incubators or technology parks. Albania has adopted a law on e-signature.

Little progress can be reported in the area of SME financing. The new leasing law, adopted in 2005, is now being implemented as a financing alternative for SMEs. Italy and Albania have concluded an agreement to set up a € 30 million SME credit facility, but establishment of the facility has been delayed for two years. Despite some progress in the procedures for establishing a guarantee fund for SMEs, it remains seriously delayed and is not yet operational. Albania's progress in implementing the European Charter for Small Enterprises has been relatively slow. There is little evidence of entrepreneurship learning having been included in education and training systems and there has been no mainstreaming of entrepreneurship education in the curriculum.

Albania is at an early stage in improving the business environment for industry and SMEs.

4.2.2. *Agriculture and fisheries*

Progress in the **agriculture** field has been very limited. Investment in fruit tree plantations, vineyards and the food processing industry has increased. Commercial banks have played a positive role in providing credit to the food processing industry. Sales of vegetables and milk to the processing industry have increased, improving farmers' revenues in these fields. The Ministry of Agriculture's agricultural and rural development strategy has been approved by the government.

However, overall productivity remains low and Albania is unable to compete with imported agricultural products. Despite improvement of the food trade balance (including processed food), imports in the livestock sector continued to increase, which is to a great extent due to the extremely low average farm size and underlines the need to achieve farm consolidation. The role of domestic industry in promoting agricultural growth remains limited.

Delayed land registration, restitution and compensation remains a major difficulty as clear and well-established legal title to land is vital for progress in this sector. Distribution channels still need to be improved and adequate produce storage facilities ensured. Preparations in the area of agriculture are at an early stage.

Some, but uneven, progress has been made in the **veterinary and phytosanitary** area.

There has been no progress in bringing the phytosanitary and veterinary standards of produce into compliance with EU requirements, even for those with a strong export potential, such as bivalve molluscs.

Some progress can be reported in the veterinary sector. The Albanian authorities have undertaken steps to transpose some parts of the *acquis*. A system for the control of diseases and monitoring the movement of small ruminants is being set up. However, no progress has

been seen in clarifying competences in the veterinary services, strengthening control structures or in staff capacity. Moreover, there remains a lack of transparency in the handling of animal diseases, as recently demonstrated by the avian influenza cases.

Without prejudice to the necessary upgrading of food processing establishments to meet EU requirements, the Ministry will have to prepare a plan to improve related establishments in the fishery sector following a mission of the EC Food and Veterinary Office (FVO) on fish and bivalve molluscs. Fish farms are registered and controlled by the Competent Authority (CA). However, legal standards equivalent to EU requirements are still missing. The CA needs access to official laboratories able to carry out diagnosis of all fish diseases and is therefore not able to certify compliance with EU requirements. The FVO mission stressed deficiencies in several aquaculture establishments approved for export to the EU. This raises concern on the CA's ability to ensure proper standards for hygienic packaging and to carry out proper assessments. Lack of official controls on the use of veterinary drugs in aquaculture was also pointed out. Moreover, some of the legal standards are neither applied by food business operators nor enforced by the CA. Whilst there is currently no export of aquaculture products to the EU, the failure of the CA to implement residue monitoring for fish farms in 2005, along with absence of controls on the use of veterinary medicines in this commodity, undermines CA's ability to guarantee the residue status for aquaculture products.

There has been limited progress in the area of phytosanitary control. Albania became a member of the International Union for the protection of new varieties of plants (UPOV) in October 2005. Some subsidiary legislation has been prepared but will only be adopted after amendment of the Law on Plant Protection Services. As regards administrative capacity, significant improvement of laboratory infrastructure - especially in equipment and training - has continued. Nevertheless, the level of the technical staff still falls short of that required to implement EU legislation.

The area of veterinary and phytosanitary policy is vital to successfully using SAA and interim agreement trade conditions. Preparations in this area are at an early stage.

There has been little progress in the area of **fisheries**. As regards progress of the relevant administrations towards European standards in the area of Common Fisheries Policy, Albania participates in the FAO's General Fishery Commission for Mediterranean and has undertaken to implement its recommendations. The fishery service controls the landing of fish regarding the required parameters. The damaging of stock through illegal means is nonetheless still continuing. Cooperation with police for inspection at sea should be strengthened.

It is in Albania's interest to make progress in the area of fisheries, with a view to successfully benefiting from the trade preferences which the EU grants under the SAA and Interim Agreement. Preparations in this area are at an early stage.

4.2.3. *Environment*

There has been some limited progress in Albania's efforts to approximate with the European standards in the environment sector.

Regarding **horizontal legislation**, some progress can be reported. A Law for Ratification of the Protocol on Strategic Environmental Assessment has been approved. Recent trends have been confirmed as regards increased participation of the public in environmental problems. The new government has expressed its intention to respect provisions of the Aarhus Convention and National Environmental Law, especially for information to the public.

However, the National Environmental Law has not yet been revised. Preparations in this area are being launched.

There has been some progress in the area of **waste management**. A Law on the Management of Dangerous Waste has been approved. However, appropriate infrastructure and policies to encourage selection, collection and disposal of municipal solid waste are still lacking. Recycling of some solid waste by private entrepreneurs has started, but measures and policies to encourage recycling remain to be adopted. Work has continued on hazardous waste management in Porto Romano (chemical plant and storage area). Work is ongoing to tackle mercury contamination in the plastics plant in Vlora, to dispose of arsenic solution from the Nitrate Plant in Fier and to deal with pollution in Ballshi Oil Refinery and Sharra landfill. Following local opposition to the construction of a landfill for the disposal of hazardous waste in Patos-Marinez, alternative plans urgently need to be agreed. Preparations in the field of waste management are underway in Albania.

No particular progress can be reported as regards **water quality**. Despite some investment in the treatment of municipal wastewater, water pollution remains a severe problem, especially in bathing water. Additionally, the problem of large amounts of solid material travelling up to the sea remains. There has been no decrease in the level of water pollution from industrial activities, especially oil extraction. Water supply and sanitation systems remain outdated. A comprehensive water management strategy is still needed, including approximation with European legislative standards, determining investment needs, and improving ministerial and local capacity to manage water and sewage issues. Albania is lagging behind in this field.

No progress can be reported in the area of **air quality**. The quality of fuel remains a major problem. As regards implementation of common guidelines developed in 2004 on control and permissible levels of air pollutants from vehicles, most vehicles are no longer formally legally permitted to drive without the repairs required to comply with legal emission levels. Albania is lagging behind in this field.

Progress in the field of **nature protection** has been limited. Illegal cutting of timber remains a problem in the country, as does the absence of policies encouraging the reforestation of slopes and eroded areas by the local community. Regarding implementation of relevant international conventions, a Law on Biodiversity has been approved by the parliament. However, the relevant regulations remain to be implemented. Overall, Albania still needs to strengthen cooperation among ministries and governmental agencies on this issue. Budgetary cuts to administrative costs have impaired inspectors' capacity to enforce rules. Albania is at an early stage in this field.

Little progress can be reported in the area of **chemicals and genetically modified organisms (GMOs)**. A draft law including provisions on GMOs is currently pending before the parliament. Albania is at an early stage in this area.

Progress can be reported in the area of **administrative capacity**. The Ministry of Environment, Forestry and Water Administration (MEFWA) has undergone restructuring, creating Directorates for specific policies. This new structure has increased its responsibilities and has focused it on efforts to strengthen law enforcement and sustainable management of natural resources, environmental integration and approximation of the environmental legal framework with EU standards. Training of ministerial staff is ongoing. The main goals remain strengthening environmental and sectoral policy-making, as well as enforcement of the governmental control policies in areas under MEFWA responsibility, as this will help Albania

to fulfill SAA requirements. Definition of the responsibilities of other institutions on environment protection and management is still pending. The MEFWA needs to continue its efforts to strengthen its co-ordination with other ministries and with local government and to integrate environmental policy into other policy areas. Further efforts are needed to implement existing environmental Impact Assessment legislation. The collection and levels of fines inflicted on transgressors of environmental legislation remain too limited to be dissuasive. The National Environmental Plan for Approximation of the Legislation has been adopted and will be incorporated into the new National Strategy for Environment to be approved during 2006. Preparations in this area are underway. Limited progress has been made towards ratification and implementation of respective international conventions in the field of environment. Further efforts are needed

4.2.4. *Transport policy*

There has been some progress in the area of transport policy. The Albania National Transport Plan (ANTP) has now been approved. It provides guidelines and recommendations on sector development, investment priorities and institutional changes required within the Ministry to provide better policy-making and strategic planning. Preparations in this area remain at an early stage.

Progress in the area of **trans-European networks** has been limited. Albania is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO), in particular by approving the first Rolling Five Year Multi-Annual Plan 2006-2010 (MAP). Continued cooperation in the framework of SEETO is required in the context of the annual revisions of the plans in order to make further progress on the definition of regional priorities and the coordination of investments. Albania needs to ensure complete traffic and transport data transmission on the core regional transport network to the SEETO.

Progress on **road transport** has been very limited. The main priorities for the Albanian Government remain completion of the East-West (Durrës - Varna, via Tirana and Sofia) and North-South (connecting Greece to Montenegro) Corridors. However, the construction of an important segment of the North-South corridor, the road from Levan to Tepelene, which involves substantial EC, EIB and EBRD investments, is seriously delayed.

Entry into force of the ANTP opens the way to implementing the Road Asset Management System (RAMS), the first stage of which is regional business plans, and the General Roads Directorate (GRD) will become an agency, contracting out all activities to private firms (principally road maintenance) which has the potential to improve efficiency.

However, the quality of maintenance remains poor, with prioritisation and identification of maintenance interventions often politically driven. Road safety continues to be a problem due to poor road conditions, defective signalling and limited education of drivers and pedestrians. Illegal construction persists along new roads, with serious implications both for road maintenance and road safety. A bridge asset management programme focusing on preventing the further deterioration of bridge structures, especially on major roads, is in its initial stage.

There has been very limited progress as regards **rail transport**. Following opposition of the World Bank, the IMF and the EU, and especially of the new Government, the project to upgrade the rail service between Tirana and Durrës and to construct a link to Tirana airport

has not been pursued. However, the railway sector is still deteriorating due to the extremely poor condition of the rolling stock and tracks. Both the ANTP and a 2004 report on modernisation of Albanian Railways recommend closure of certain sections of the network and the interruption of services until a business plan with significant reorganisation is prepared and developed. Development of such a plan, and reform of Albanian Railways, is under preparation.

Some progress has taken place in the **air transport** sector. By signing the European Common Aviation Area Agreement (ECAA), Albania has undertaken to integrate into the EU internal aviation market and to apply EU aviation standards. This will require the application of the ECAA agreement in practice and the fast implementation of the first transitional phase of the relevant aviation *acquis*, including market access conditions, safety, security, airport policy, environmental and social issues and air traffic control. The construction of new infrastructure at Tirana airport as well as a new spur from the Tirana-Durres highway has advanced. The Government has questioned elements of the concession agreement between the former Government and the operator of Tirana Airport as it eventually wishes to use the new airport at Kukes (completed but currently not in use) for international flights, which would run counter to the concession agreement.

Very limited progress can be reported in the area of **maritime transport**. As regards privatisation of port operations, the process is ongoing in Vlora and Durres for stevedoring services. A Master Plan for the Port of Durres is being developed. In addition to indicating how Durres should be developed, the Plan will act as a blueprint for the overall development of Albanian ports, in compliance with ANTP recommendations. A new ferry terminal building in Durres is planned, as are infrastructure improvements in the Port of Vlora. Albania's record on maritime safety remains extremely poor. Considerable progress is needed in improving the very high level of detention rate (23.36 % in 2005) pursuant to the Paris Memorandum of Understanding.

Albania's preparations in the field of trans-European networks, air transport and maritime transport remain at an early stage. Preparations in the field of road and rail transport are lagging behind.

4.2.5. Energy

Some progress has been made in the area of energy. As regards oil stocks and security of supply, no progress has been registered. Albania does not hold sufficient oil stocks. Coal production is low (about 0.4 m tonnes per year) in comparison with the estimated coal reserves (more than 700 m tonnes).

The sixth Power Sector Action Plan has been approved. Albania has ratified the Energy Community Treaty and has begun to adopt the relevant *acquis*. A tariff revision has been agreed between the State Electricity Company (KESH) and the World Bank and submitted to the regulatory authority. A task force has been set up under the Ministry of Economy, Trade and Energy to take forwards the restructuring and privatisation of the electricity sector.

Some improvements were made as regards national energy supply following the latest serious energy crisis that occurred in the last quarter of 2005 and during January 2006. Energy was contracted from Romania and Serbia and transmitted through Serbia. KESH adopted a strategy of power security by diversification of sources, and contracted four foreign

companies. By the end of the first semester of 2006, KESH was able to “store” excess energy via facilities in Kosovo, Greece and two trading companies.

However, technical electricity losses and theft increased in the first semester of 2006 to excessive levels while the rate of bill collection again dropped. Alongside staff cuts in view of eventual privatisation, this puts KESH in a difficult situation. The unbundling of KESH into three independent entities has started, and the Transmission System Operator has been legally and financially separated from KESH, but asset allocation procedures are still on-going. In an effort to ensure successful privatisation following a failed attempt, restructuring of the refining and trading company ARMO has also started. No particular progress has been recorded in the process of market opening. So far, only two companies have been awarded the status of Eligible Customer. Framework and implementing legislation needs to be improved.

The Government has confirmed its plans to proceed with the construction of a new thermal power plant in Vlora, while other projects related to the planned Energy Park will be moved to Bisht Poro and Porto Romano. A further thermal power project is envisaged in Korca.

The Albanian Energy Efficiency Law of April 2005 creates the legal framework for the promotion and improvement of the efficient utilisation of energy in Albania. The law creates an energy efficiency fund. The Albania EU Energy Efficiency Centre continued to be involved in several pilot projects, including on renewable energy, such as training on solar water heaters. The use of renewable energy sources however remains at low levels.

No progress has been made as regards nuclear safety and radiation protection. While a legal framework and basic administrative structures are in place, human resources are lacking and the management of radioactive waste and monitoring of radiation sources needs to be improved. Albania will need to ensure compliance with Euratom Treaty requirements and procedures, in particular regarding environmental monitoring and radiation protection in connection with medical and industrial applications. Albania has not yet acceded to the "Convention on Nuclear Safety", as well as to the "Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management", to which Euratom has been a contracting party since April 2000 and January 2006, respectively.

Overall, despite some progress, the energy sector remains in an acutely critical situation which impinges on the social and economic development of the country.

4.2.6. Information society and media

Progress has been very weak in the area of **electronic communications and information technologies**. Legislative measures for liberalisation of the market still need to be implemented and enforced. New or amended legislation is required to progressively take account of the currently applicable EU regulatory framework for electronic communications networks and services. The Telecommunications Regulatory Entity (TRE) still needs to improve its organisation and capacity. It is not sufficiently active in implementing applicable legislation in an independent, transparent and non-discriminatory manner and in enforcing its decisions. Regarding the privatisation of Albtelecom, an external review ordered by the government of the initial privatisation tender highlighted a number of problematic procedural issues.

There has been very little progress as regards competition in the sector. There is still no approved reference interconnection offer or reference unbundling offer. An increase of 17% in the tariff of local calls is a small step towards rebalancing but further steps are needed.

Concerning mobile telephony, the incumbent operator and the two mobile operators have been designated as operators with significant market power (SMP). Following the designations, new interconnection agreements have been signed between the fixed incumbent operator and the two mobile operators with decreased interconnection tariffs as of 1 August 2006, approved by the TRE. Decisions on the introduction of competitive safeguards for introduction and development of competition in the fixed telephony market are still pending. Number portability, both for fixed and mobile telephony also needs to be addressed and put in place. Preparations in area of completion of the required legislation and its implementation remain at an early stage in Albania. In the area of preparedness to take on SAA commitments in the electronic communications sector, Albania is clearly lagging behind.

There are no significant developments to report in the field of **information society services**.

There has been limited progress in the area of **audiovisual policy**. The amendment on appointment and composition of the National Council of Radio and Television (NCRT) and Steering Council of Albanian Radio and Television (SCART) and amendments to the Law on Classified Information are positive steps. Three draft laws or amendments aligning the legislation with the Television without Frontiers Directive and the European Convention on Transfrontier Television are currently pending before the parliament. The establishment of a Council on Media Ethics is a positive step towards using self-regulation to increase professionalism in the media while preserving editorial independence (*see also Human rights and the protection of minorities*).

However, a compromise political agreement in August 2006 may lead to further changes in NCRT and SCART and proper implementation of the selection process remains to be seen. NCRT needs appropriate human and financial resources to accomplish its duties, in particular frequency allocation in accordance with the National Plan, the prevention of pirate occupation of frequencies, the fight against copyright, piracy and the monitoring of broadcasters. Albania needs to adopt laws to fight media piracy, and regulate digital broadcasting in line with EU standards. Alignment with the Television Without Frontiers Directive remains at an early stage. Albania should ensure that existing media laws are applied in line with EU standards.

Overall, preparations in the area of information society and media have begun, but are lagging behind.

4.2.7. *Financial Control*

Some progress can be reported in the area of Public Internal Financial Control (PIFC). The 2005 PIFC Policy Paper has been endorsed by the new government and an action plan is being drafted. An internal audit manual has been approved. Drafting of a financial management manual has started. The qualification programme and certification process for internal auditors in the public sector has contributed to the recognition of audit as a profession and underlined the need of better qualification for auditors.

Once the action plan on the 2005 PIFC Policy Paper is approved, a new internal audit law in line with international standards should be adopted. Revision of the legislative framework, which encompasses the financial management control aspect of PIFC, remains at an early stage and will take into consideration final structure and content of the new Organic Budget Law - which is itself undergoing revision. The respective roles of inspection and internal audit is still need to be clarified.

Some progress has been made in developing the legal and regulatory framework for Financial Management Control (FMC) and Internal Audit (IA). Institutional capacity building is underway. The question of creating a separate Central Harmonisation Unit (CHU) for FMC and IA has recently been addressed in that the General Internal Audit Directorate (GDPIA) is now responsible for IA only.

Nonetheless, the question of how and where the FMC/CHU will be established remains to be resolved. Institutional capacity building has accumulated further delays and there is less progress than expected on issues like the FMC and IA manuals and necessary additional legislative measures.

As regards external audit, the Supreme Audit Institution has substantially progressed in its audit activities as well as in its internal management and organisation. The SAI is now in the process of implementing its Development Strategy for 2005-2008. The independence of this institution has been confirmed, except as far as its budget is concerned. Constraints imposed on its operations in 2005 ended up in reducing the volume of audit work for this year.

Preparations in the area of financial control are underway but at an uneven stage.

4.2.8. Statistics

There has been reasonable progress concerning statistical infrastructure. The Law on Official Statistics is already compliant with European standards. Most of the major classifications are in place though more work is still required. The scope of the business register needs to be extended. The five-year programme of official statistics for 2007 – 2012 gives INSTAT a central role in defining and coordinating the national statistical system. With regard to sector statistics, Albania has made good progress. As regards business statistics, a Structural Business Survey has been carried out. A review of the questionnaire is under consideration to make it possible to retrieve all indicators according to EU standards. Considerable improvement remains necessary both on short-term and for structural sector statistics.

As regards foreign trade statistics, positive trends from the last reporting period can be confirmed. Good cooperation continued between INSTAT and the customs administration on the compilation and electronic transmission of data to INSTAT. Monthly data for 2000-2005 have been updated.

Concerning agricultural statistics, an improved questionnaire for annual surveys has been developed, allowing construction of the resources and uses account for the agricultural sector. The nomenclature complies with EU standards. INSTAT is also working to prepare a Farm Structure Survey in 2007 and an Agricultural Census in 2008.

Concerning demographic and social statistics, no particular progress can be reported. In order to develop demographic statistics, the Civil Registration Offices need to take further measures to ensure all demographic events are registered. A census based population register should also be established. In the field of regional statistics, the NUTS classification has been implemented but only at level I (one digit).

Concerning macro-economic statistics, GDP data for 2003-2004 was published in December 2005 using the ESA 95 as methodological base. However, further progress needs to be made in areas such as the exhaustiveness of GDP, GDP by type of final expenditure and quarterly

estimates of GDP. The Consumer Price Index is now in broad compliance with IMF recommendations but the weighting structure still needs to be modified. Testing and analysis of methods were improved for compilation of Quarterly National Accounts and now include some missing main indicators.

No major developments can be recorded in the areas of statistical infrastructure and classifications. The Albanian statistical system is moving towards compliance with EU standards but further harmonisation is required, in particular in macro-economic, social and agricultural statistics. The statistical business and population registers need to be upgraded. Preparations in this sector are underway.

4.3. Justice, freedom and security

4.3.1. Visa, border, control, asylum and migration

There has been some progress in the field of **visa** administration. Quality of training for border guards has increased and training has been conducted on visa issuance. The Consular Directorate in the Ministry of Foreign Affairs and Albanian consular offices abroad now apply visa stickers with security elements, replacing the old visa stamp system. Passports of ten-year validity and with security features remain in use, but work on new passports including biometric data and an electronic chip is underway and expected to be completed by the end of 2006.

Albania has reciprocal visa arrangements with Montenegro (no visa required), Bosnia and Herzegovina and Serbia (visa available from embassies only). Albanians require a visa (available from embassies only) to enter Croatia, while Croatians do not need a visa to enter Albania. Albanians require a visa (available at the border or at embassies) to enter the former Yugoslav Republic of Macedonia, but its nationals do not require a visa to enter Albania. Based on bilateral agreements, service and diplomatic passport holders do not need a visa to travel to the abovementioned countries. Albania has extended its visa-free regime for EU Member States to nationals of all new EU Member States which acceded to the EU in 2004.

However, Albania has not yet amended its Law on Foreigners to bring it into line with EU standards on visas. A centralised IT network and database for the administration of visas is not yet in place. Further progress is needed to ensure that the issuance of travel documents is in accordance with international standards. In particular, the safety of breeder documents and a reliable civil registry system are important in the context of the new passports with biometric data that Albania plans to issue in early 2007. Preparations in the visa field are at an early stage.

Albania has made some progress in the field of **border management**. Albania has made progress in improving immigration checks and controls at Border Crossing Points (BCPs). New equipment and logistics support have increased the efficiency of green border surveillance. Use of Mobile Surveillance Units has brought positive results, particularly in combating trafficking of human beings and drugs. Installation of Total Information Management System and related document checking equipment has been completed in the main ten BCPs, and work is going on in another five.

Cooperation between the Border Police Directorate and other Directorates of the Albanian State Police (ASP) and with counterparts in neighbouring countries has improved. The police and its border control structures have been much more active in preventing the smuggling of

cattle, cigarettes and other commodities through green borders, as well as the illegal migration to Greece. The Government has introduced a three-year moratorium on speedboats, which has facilitated the spotting of water-borne criminal activity.

The number of illegal crossings increased at the end of 2005. This increase is probably linked to an amnesty for illegal residents in Greece.

The Border and Migration Police Directorate of the ASP has revised the Border Management policy according to the EU Guidelines for Integrated Border Management in the Western Balkans but the strategy has not yet been adopted. A memorandum of understanding on cooperation between police and customs service exists, but the services' respective tasks and responsibilities are not yet clearly defined.

Considerable efforts are still required to bring all Albanian BCPs up to European standards in terms of technical equipment and training of staff. Poor infrastructure in Durres and Vlora ports hampers proper border and migration control. Border management at these ports and at Tirana International Airport still falls short of international standards. Blue border surveillance remains relatively weak. Due to lack of funds to create a Police Coast Guard, military forces are involved in border control and anti-smuggling operations. This is not in line with European standards, NATO partnership goals or Albania's Ohrid commitments, which require civilian command of law enforcement agencies with police powers. Alongside effective customs management, Albania's border management will be important for trade under the SAA and Interim Agreement. Albania partially meets its objectives in the field of border management.

Limited progress can be reported in the area of **asylum**. The overall legislative framework for asylum is in compliance with international standards. Equipment for processing asylum requests has been significantly improved and a pre-screening process is now in place. All asylum seekers and refugees are now provided with the necessary documents. Two shelters were recently constructed: a shelter for asylum seekers and a national reception centre for victims of trafficking in Albania.

A restructuring process is underway in the Directorate for Refugees and Nationalities in the Ministry of Interior. This had led to only three staff now processing asylum applications instead of five, hindering the Directorate's capacity to implement the action plans for asylum and to properly process asylum applications. An effective management system needs to be developed and the impact of readmission agreements on asylum system capacity needs to be evaluated.

Progress is still needed on implementation of the legal framework, in particular as regards information to the claimants on their rights, judicial procedure and speeding up the decision-making process. The Law on Foreigners still needs to be harmonised with the *acquis* and the law on asylum. Criminal and Customs Codes remain to be harmonised with existing provisions on smuggling. Information on the country of origin is still lacking in the pre-screening process and prevents Albania from fully complying with the asylum *acquis*. Attention should be paid to providing adequate expertise in the staff running new asylum centres. Albania only partially meets its targets in the field of asylum.

The EC/Albania readmission agreement came into force 1 May 2006. The capacity to implement this agreement needs to be improved.

Some progress can be reported in the area of **migration**. The overall legislative framework for migration is in compliance with international standards. Albania has improved its internal coordination and cooperation with neighbouring countries to combat illegal migration. A Memorandum of Understanding between the Ministry of Interior and UNHCR, IOM and OSCE has been signed. Initial steps have been taken towards a readmission agreement with Turkey.

The Council of Ministers has endorsed a decision on migration policy, as well as the Additional Protocol to ILO's Convention on migrant workers. Emigration remains a problem and the national strategy on migration approved by the Government in November 2004 has not provided tangible results. Lack of staff in the Border and Migration Directorate of Albanian State Police puts at risk Albania's ability to fulfil its obligations under readmission agreements and to implement the action plan for migration. An Agency for Migration has yet to be established. Illegal migration to Greece still remains a concern (although a cooperation protocol with Greek border police and coast guard might help) and Albania continues to be a transit country for economic migrants, asylum seekers and trafficked persons. Albania only partially meets its targets in the field of asylum.

4.3.2. *Money laundering*

There has been limited progress in the fight against money laundering. The Government has approved a draft law criminalising the handling of stolen goods, an improvement to the legal framework for fighting money laundering. The General Prosecutor has established a task force against economic crime and corruption at Tirana Prosecution Office. An agency for the management of sequestered and confiscated assets has been set up under the Ministry of Finance. Some steps have been taken to enhance inter-agency cooperation. A national committee for the coordination of the fight against money laundering is chaired by the Prime Minister, involves all relevant institutions and meets regularly. Its technical working group, the Financial Intelligence Unit (FIU) of the Ministry of Finance now meets monthly with the prosecutor's office.

The FIU has increased its staff to twenty-two. Four cases of money laundering are currently under prosecution. It is now compulsory to open an assets investigation for every serious crime investigation. Twelve cases for confiscation of assets from organised crime have now been prosecuted and three have been successfully completed. Steps have been taken to enhance international cooperation. The financial enforcement network agreement (FINCEN) has been signed with twenty-five countries and agreements with other countries are under preparation.

Albania' economy is still largely cash-based and thus particularly vulnerable to money laundering. Capacity to implement money laundering legislation remains weak. The FIU still lacks a functional IT system for the reporting of financial transactions. No steps have been taken to increase the operational independence of the FIU from the Ministry of Finance. Cooperation between the FIU, the police and the prosecutor's office remains poor. To date there has not been a single prosecution for non-reporting. Further amendments are required to bring money laundering legislation into line with European standards, the forty 1990 recommendations of the Financial Action Task Force on misuse of the financial system and its nine 2001 special recommendations on terrorist financing. There is considerable room for further improvement in cooperation with foreign law enforcement agencies to investigate money laundering (important because trans-national networks are often involved).

The task-force on economic crime and corruption is not yet fully operational due to insufficient numbers of qualified staff, and the lack of a clear functional separation between verification and investigation units. Further implementing legislation is required to deal effectively with confiscated assets, and the new agency for the management of confiscated assets has too few staff.

No change has yet been made to the current high threshold for making a transaction reportable on a mandatory basis. There has been very little progress in enforcing cash-control mechanisms, with enforcement limited to airport notice boards. The level of reporting and sequestration is very low and does not reflect the level of cash entering or leaving the country. Preparations in the area of the fight against money laundering are at an early stage.

4.3.3. *Drugs*

There has been fair progress in the fight against drugs. Improved political impetus and increased use of special investigative means such as controlled delivery, controlled purchases and surveillance have led to the arrest of more than 100 perpetrators including for large-scale drug trafficking by criminal gangs in Tirana, Durres, Elbasan and Vlora, and considerable seizures of cannabis, hashish, hashish oil, heroin and cocaine. The support of specialised international initiatives such as PAMECA, ICITAP, and INTERFORZA and intense and fruitful cooperation with INTERPOL, the law enforcement agencies of neighbouring countries and those of other Western European states has contributed to these results.

The merging of the Ministries of Public Order and of Local Government into the Ministry of Interior has improved conditions for cooperation between the Police and the local administration officers in combating the drugs trade. New legislative amendments involve local government officials in the fight against drug cultivation and hold them legally responsible if they fail to report drugs cultivation in their area. The police have drawn up a map of all potential areas for narcotic plant cultivation. Drug seizure figures have become more consistent and reliable.

The quantity of drugs seized nonetheless remains relatively small compared with the volume estimated to be trafficked through Albania. Albania needs to implement the action plan related to the National Anti-Drug Strategy and the recommendations of the Mini Dublin Group. With police efforts concentrating on heroin and cannabis, there has been little progress on identifying the scale and nature of domestic synthetic drug production and the international trade in such drugs, but it is estimated that this market is not yet large. The number of drug abusers is increasing, but infrastructure for their treatment and public information about the problem is lacking.

Capacity and co-ordination for analysis of criminal intelligence to dismantle drug trafficking networks is not yet optimal, and greater use could be made of joint anti-narcotics task forces in which all relevant Albanian authorities (e.g. police, prosecutors, judges, Ministry of Finance, and intelligence services) co-operate.

The police do not yet have proper procedures or infrastructure for the storage, analysis and disposal of drugs. New legislation allowing the use of seized vehicles by police and prosecutors under certain conditions remains pending in parliament. Preparations in the area of the fight against drugs are underway.

4.3.4. *Police*

There has been fair progress in the **police** field. The police have conducted a number of successful high-profile operations in recent months (*see Fighting organised crime and terrorism*) and have also seized large amounts of weapons and ammunition.

The structure of the police is being re-organised. Improved professionalism and co-operation were demonstrated in work on a new organisational chart which should align the Albanian State Police with western European police services and has been submitted to the Minister of Interior for endorsement. A working group is codifying position descriptions, duties and responsibilities for all posts within the police. Efforts are underway to improve the administration of police records. There have been some new appointments and transfers of senior and mid-level staff, but overall staffing has been stable. Professional training has been conducted for police staff at all levels.

Work has begun on a 10-year strategy for the police and on a new Albanian State Police Law which should help the police meet European standards, to be finalised by the end of 2006. The planned law would incorporate the current Law on Ranks and would allow the Ministry of Interior Director General to delegate management of financial resources to the police. Objective-setting and the continuous monitoring of performance for each police commissariat and directorate have had an effect and have kept the police under pressure to meet the assigned objectives. Considerably improved cooperation has been established with the customs service and the State Intelligence Service.

The fast growth of Tirana and the heterogeneity of its population have led to an increase in violent robberies and ordinary thefts, and the police are not yet keeping pace with this demographic development. Giving a higher priority to community policing could help address this, but a community policing strategy has yet to be adopted and implemented. Better co-operation with local communities is required in order to reduce the availability of weapons, which contributes to street crime and to violence caused by blood feuds, particularly in the north of the country.

The system of case management does not yet fulfil required standards. Improvement requires close co-ordination with the Prosecutor's Office. Management and in particular internal control structures still require strengthening. Managing human and material as well as financial resources should be devolved from the Ministry of Interior to the police. Further training and infrastructure is needed and a manual of procedures for all police officers has yet to be finalised and put into operation. A strategic agreement with Europol has yet to be signed but is planned for late 2006/early 2007. Preparations in the area of police are underway.

4.3.5. *Fighting organised crime and terrorism*

Progress has been made in fighting **organised crime**, a key European Partnership priority. There has been in particular improved use of existing legislation to fight organised crime. Strong political will to crack down on organised crime has led to a number of police operations against major criminal groups and individuals who had hitherto enjoyed virtual impunity.

Progress has been made on implementing the Specific Action-Oriented Measures against organised crime. Operational cooperation through existing agreements with the law

enforcement institutions of Albania's neighbours (notably Italy, Greece, Montenegro, the former Yugoslav Republic of Macedonia and Kosovo under UNSCR 1244) and other countries has greatly improved. INTERPOL communication channels are generally functioning well, resulting in the arrests of several high profile suspects who were hiding abroad. Cooperation between police and the judiciary at central level (notably the Organised Crime Directorate of the ASP and the Serious Crimes prosecution office) on organised crime has somewhat improved, as shown by the above high profile arrests.

Much scope still remains for improvement in concrete results in the fight against organised crime, in terms of the rate, number and quality of prosecutions for related offences and the seizure and confiscation of the proceeds of crime. Combating high level corruption in rule of law bodies is hindered by a lack of strategy and of coordination between law enforcement officials and agencies in charge of overseeing public expenses, procurements and living standards of public officials. The use of intelligence-led policing should be expanded. Systematic reform of the way the police co-operate with the judiciary, especially at local level between enforcement agencies and district prosecutors, could further improve results in fighting organised crime. A functional legal solution to define coordination between the police, the state intelligence agency and the prosecution service is still lacking.

More work is required to ensure that direct bilateral communication with INTERPOL for specific organised crime cases functions optimally. Albania's data protection laws are not applicable to police and prosecutors, and no data protection authority yet exists, potentially hindering data exchange with foreign law enforcement institutions and the conclusion of an operational agreement with Europol. Albania should cooperate more closely with Europol concerning input to European organised crime threat assessment and intelligence gathering.

Preparations in the areas of the fight against organised crime are now underway.

Some progress can be reported in the field of **trafficking in human beings**. The Government of Albania continued to make significant efforts to combat human trafficking. There has been a significant reduction of trafficking human beings by speed-boats and dinghies across the Adriatic/Ionian Seas over the last two years. Successful prosecutions and convictions of traffickers have continued. Improvement of the IT network within the Ministry of the Interior and the police contributed to the detection and arrest of several criminal groups mainly producing false passports and visas for Schengen countries, key tools for trafficking.

The government has appointed a new full-time national anti-trafficking coordinator with staff and has adopted a National Strategy on Anti-Trafficking. An Inter-Ministerial Anti-Trafficking Committee chaired by the Deputy Minister of Interior has been created, and Vlora Anti-Trafficking Centre has been merged into the central police structures. Albania has signed a bilateral anti-child-trafficking agreement with Greece and has begun to implement its witness protection law for trafficking victims.

Trafficking through Albania's borders with its Western Balkan neighbours remains problematic. Further financial and human resources and steps to ensure effective coordination amongst the services operating on the border are required. The existing network of operational co-operation agreements with regional and international partners should be expanded.

Implementation of the Government's protection and prevention programs remains partial. Weaknesses in witness protection mean victims are often unwilling to testify against their traffickers. Comprehensive reintegration and rehabilitation services are critical to preventing the re-trafficking of victims. Investigation and prosecution of trafficking-related corruption at all levels of law enforcement is not yet sufficiently determined. Albania only partially meets its objectives in the field of trafficking in human beings.

Albania has made some progress in the field of the fight against **terrorism**. The Directorate of Counter Terrorism has demonstrated commitment and motivation in preventing serious terrorist acts and has seized large quantities of weapons, ammunition, and explosives.

Large weapons seizures indicate that large quantities of arms could remain hidden or in possession of criminal gangs ready to be trafficked or used. The implementation of legislation to comply with Albania's international obligations on the prevention of terrorism remains incomplete. Inter-agency cooperation remains weak, and there remains a need to clarify the division of tasks in fighting terrorism and to improve equipment and training for counter-terrorist analysts and investigators. Albania partially meets its objectives in the fight against terrorism.

4.3.6. *Protection of personal data*

As regards the right to the protection of personal data, the Council of Europe 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 entered into force in Albania in June 2005. However, the Convention is not applied to personal data which are accessible to the public and to the personal data which are published in accordance with the law.

The current law on Personal Data protection is not in line with the *acquis*, notably the Data Protection Directive, in particular as it only applies to public authorities. An independent data protection supervisory authority with sufficient powers over the public and private sectors and sufficient means is not yet in place.

This situation means that data protection rules remain purely theoretical and that their implementation is not ensured. This is a matter of concern.

STATISTICAL ANNEX

STATISTICAL DATA (as of the 10th of September 2006)

Albania

	Scale	Unit	Foot-note	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Basic data														
Population: total	Thousand	Number	1)	3037,1	3062,9	3088,2	3061,5	3049,2	3058,5	3063,3	3084,2	3102,8	3119,5	:
Total area of the country	Unit (x1)	km ²		28750,0	28750,0	28750,0	28750,0	28750,0	28750,0	28750,0	28750,0	28750,0	28750,0	28750,0

	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
National accounts														
Gross domestic product	Million	National currency		:	351113,0	353642,0	417009,0	480581,0	532977,0	590282,0	631338,0	696950,0	755320,0f	:
Gross domestic product	Million	EUR		:	:	:	:	3270,2	4020,0	4594,7	4769,9	5068,4	5915,2f	:
Gross domestic product per capita	Unit (x1)	EUR		:	846,8	683,5	813,9	1073,8	1315,6	1496,0	1546,1	1628,0	1892,0	:
SI: Growth rate of Gross domestic product at constant prices (national currency), relative to the previous year	Unit (x1)	%		:	9,1	-10,9	8,6	13,2	6,5	7,1	4,3	5,8	6,2f	:
SI: Employment growth (national accounts), relative to the previous year	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
SI: Unit labour cost growth (national accounts), relative to the previous year	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
GDP per capita at current prices	Unit (x1)	PPS		:	:	:	:	:	:	:	:	:	:	:
SI: GDP per capita at current prices, PPS, EU-25=100	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
SI: Labour productivity, PPS (GDP per person employed), EU-25=100	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
Agriculture (NACE Sections A+B): share of total gross value added	Unit (x1)	%		:	36,1	31,6	28,9	25,9	25,5	23,9	23,6	23,9	22,6	:
Industry (excluding construction) (NACE Sections C to E): share of total gross value added	Unit (x1)	%		:	9,7	8,6	7,2	7,1	7,6	7,2	6,8	8,6	10,0	:
Construction (NACE Section F): share of total gross value added	Unit (x1)	%		:	5,0	6,0	4,9	5,9	8,1	10,3	11,9	13,7	13,8	:
Services (NACE Sections G to P): share of total gross value added	Unit (x1)	%		:	49,2	53,8	58,9	61,1	58,8	58,7	57,8	53,8	53,7	:
Final consumption expenditure, as a share of GDP	Unit (x1)	%	2)	:	99,8p	100,0p	96,5p	83,9p	76,8p	72,4p	75,7p	75,8p	76,9p	:

Final consumption expenditure: household and NPISH, as a share of GDP	Unit (x1)	%	2)	:	91.1p	90.5p	86.8p	74.2p	67.5p	62.1p	64.6p	64.8p	65.9p	:
Final consumption expenditure: General government, as a share of GDP	Unit (x1)	%	2)	:	8.6p	9.5p	9.7p	9.7p	9.3p	10.3p	11.1p	11.0p	11.0p	:
—Gross fixed capital formation, as a share of GDP	Unit (x1)	%	2)	:	26.0p	25.2p	24.9p	30.4p	39.3p	46.2p	47.4p	52.6p	55.1p	:
—Stock variation, as a share of GDP	Unit (x1)	%	3)	:	-5.2p	-1.3p	2.0p	1.8p	3.7p	1.7p	1.3p	-3.8p	-9.7p	:
Exports of goods and services, relative to GDP	Unit (x1)	%	2)	:	11.0p	9.5p	10.6p	15.5p	17.5p	18.2p	19.3p	20.3p	21.8p	:
Imports of goods and services, relative to GDP	Unit (x1)	%	2)	:	31.6p	33.5p	34.0p	31.6p	37.3p	38.5p	43.7p	44.9p	44.0p	:

Inflation rate	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
SI: Consumer price index: total (CPI), growth relative to the previous year	Unit (x1)	%	4)	6.0	17.4	42.1	8.7	-1.0	4.2	3.5	1.7	3.3	2.2	2.0

Balance of payments	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Balance of payments: current account total	Million	EUR		28,0	-49,1	-223,7	-58,0	-124,5	-176,8	-243,3	-445,6	-360,4	-288,3	:
Balance of payments current account: trade balance	Million	EUR		-363,2	-534,2	-471,7	-538,4	-621,0	-889,9	-1147,0	-1223,1	-1184,2	-1281,3	:
Balance of payments current account: exports of goods	Million	EUR		156,6	191,9	139,9	185,5	257,7	276,8	340,2	349,7	396,3	485,7	:
Balance of payments current account: imports of goods	Million	EUR		519,7	726,1	611,5	724,0	878,7	1166,8	1487,1	1572,8	1580,5	1767,0	:
Balance of payments current account: net services	Million	EUR		-6,2	-11,8	-29,3	-38,1	94,9	19,6	99,7	-5,6	-73,3	-41,4	:
Balance of payments current account: net income	Million	EUR		32,3	56,3	43,8	69,0	70,6	115,7	166,4	133,8	150,9	141,2	:
Balance of payments current account: net current transfers	Million	EUR		364,9	440,6	233,4	449,5	331,1	577,8	637,5	649,3	746,1	893,1	:
Balance of payments current account: net current transfers - of which government transfers	Million	EUR		98,2	65,7	25,6	73,7	154,6	102,3	31,4	40,5	53,4	60,8	:
Direct investment (FDI) in the reporting economy	Million	EUR		53,5	71,0	41,9	40,1	38,6	155,0	231,5	143,0	157,8	274,8	:

Public finance	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General government deficit/surplus, relative to GDP	Unit (x1)	%		:	-10,3	-12,5	-11,5	-8,9	-7,5	-6,9	-6,0	-4,8	-4,9f	:
SI: General government debt, relative to GDP	Unit (x1)	%		:	33,2	48,7	52,5	52,7	59,1	57,8	63,1	59,8	56,5f	:

Financial indicators	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross foreign debt of the whole economy, relative to GDP	Unit (x1)	%		:	9,6	14,6	16,6	15,8	16,6	17,0	21,8	20,5	18,4f	:
Gross foreign debt of the whole economy, relative to total exports	Unit (x1)	%	5)	127,7	132,7	219,1	221,4	200,0	241,6	229,1	296,7	268,4	230,4	:
Money supply: M1	Million	EUR		488,2	681,3	536,6	495,8	700,9	935,6	1112,5	1151,9	1052,5	1353,8	:

Money supply: M2	Million	EUR		719,9	909,2	949,6	1179,9	1630,8	1995,0	2376,5	2453,4	2541,7	3065,8	:
Money supply: M3	Million	EUR		885,3	1164,8	1162,2	1418,3	1992,9	2474,7	3069,3	3148,1	3261,1	3972,8	:
Total credit: credit by monetary financial institutions (MFIs) to total residents (consolidated)	Million	EUR		:	:	:	105,1	135,3	175,3	217,5	292,0	368,6	548,1	:
Interest rates: day-to-day money rate, per annum	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum	Unit (x1)	%	6)	21,0	28,8	43,0	25,0	25,8	24,0	11,9	16,0	10,5	13,7	:
Deposit interest rate (one year), per annum	Unit (x1)	%	7)	13,7	19,1	27,8	16,5	9,1	8,0	7,8	9,3	7,6	6,0	:
EUR exchange rates: average of period - 1 euro= ... national currency	Unit (x1)	Number		:	:	:	:	146,960	132,580	128,470	132,360	137,510	127,680	:
EUR exchange rates: end of period - 1 euro= ... national currency	Unit (x1)	Number		:	:	:	:	135,800	132,570	120,730	140,180	134,320	126,350	:
Effective exchange rate index (1999=100)	Unit (x1)	Number		:	:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold)	Million	EUR		374,8	431,3	499,7	573,4	488,0	696,4	852,7	902,3	907,6	1103,4	:
Value of reserve assets (excluding gold)	Million	EUR		356,2	397,8	470,3	543,3	455,6	663,5	817,3	872,9	882,0	1079,1	:

External trade	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade balance: (all goods, all partners)	Million	EUR		:	-572,8	-433,3	-565,2	-753,6	-896,3	-1145,2	-1258,8	-1252,4	-1344,2	-1585,4
Value of exports: (all goods, all partners)	Million	EUR		:	166,3	121,4	185,2	329,4	283,0	340,4	331,3	395,2	478,8	532,3
Value of imports : (all goods, all partners)	Million	EUR		:	739,1	554,7	750,4	1083,1	1179,3	1485,7	1590,2	1647,6	1823,0	2117,7
Terms of trade (export price index / import price index), relative to the previous year	Unit (x1)	Number		:	:	91,3	96,2	106,8	100,2	101,5	99,9	98,2	99,0	80,3
Share of exports to EU-25 countries in value of total exports	Unit (x1)	%		:	86,4	89,3	92,5	95,5	93,1	91,2	92,5	93,8	90,6	88,7
Share of imports from EU-25 countries in value of total imports	Unit (x1)	%		:	76,4	85,8	83,9	79,6	77,8	77,4	74,0	71,3	68,1	63,6

Demography	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Natural growth rate : crude rate of natural increase (births minus deaths)	Unit (x1)	per 1000	8)	17,7	16,5	14,1	13,7	13,5	11,4	12,5	9,5	9,3	8,1	:
Net migration rate: number of immigrants minus the number of emigrants	Unit (x1)	per 1000		:	:	:	:	:	:	:	:	:	:	:
Infant mortality rate: number of deaths of children under one year of age relative to 1000 live births	Unit (x1)	Number	9)	:	:	:	:	17,5	16,0	17,4	17,3	17,4	:	:
Life expectancy at birth: male	Unit (x1)	Years	8)	68,5	:	:	:	71,7	:	72,1	:	72,1	:	:
Life expectancy at birth: female	Unit (x1)	Years	8)	74,3	:	:	:	76,4	:	77,5	:	78,6	:	:

Labour market	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Economic activity rate (15 - 64): proportion of the population aged 15-64 that is economically active	Unit (x1)	%	10)	:	:	:	:	68,3	66,2	62,3	61,8	60,1	58,4	:
SI: Employment rate (15-64): proportion of the population aged 15-64 that is in employment	Unit (x1)	%	10)	:	:	:	:	55,7	55,0	52,1	52,1	51,1	50,0	:
SI: Employment rate (15-64), male: proportion of the male population aged 15-64 that is in employment	Unit (x1)	%	10)	:	:	:	:	69,0	66,0	64,0	63,9	62,6	60,8	:
SI: Employment rate (15-64), female: proportion of the female population aged 15-64 that is in employment	Unit (x1)	%	10)	:	:	:	:	42,3	44,1	39,6	39,7	39,1	38,7	:
SI: Employment rate of older workers (55-64): proportion of the population aged 55-64 that is in employment	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
Agriculture, forestry and fishing (NACE Sections A+B) as a share of total employment	Unit (x1)	%	10)	68,4	70,3	69,6	70,8	72,1	71,8	57,7	57,7	58,2	58,5	:
Industry (NACE Sections C to E) as a share of total employment	Unit (x1)	%	10)	8,3	7,6	7,9	7,7	7,7	5,4	7,7	7,6	7,2	8,1	:
Construction (NACE Sections F) as a share of total employment	Unit (x1)	%	10)	1,8	2,0	1,4	1,0	1,0	1,2	6,1	6,1	6,0	5,5	:
Services (NACE Sections G to P) as a share of total employment	Unit (x1)	%	10)	21,4	20,2	21,0	20,5	19,2	21,5	28,5	28,6	28,5	27,9	:
SI: Unemployment rate: proportion of the labour force that is unemployed	Unit (x1)	%	11)	:	:	:	:	18,4	16,8	16,4	15,8	15,0	14,4	:
SI: Unemployment rate, male: proportion of the male labour force that is unemployed	Unit (x1)	%	11)	:	:	:	:	16,4	14,9	14,2	13,6	12,9	12,4	:
SI: Unemployment rate, female: proportion of the female labour force that is unemployed	Unit (x1)	%	11)	:	:	:	:	21,4	19,3	19,9	19,1	18,2	17,5	:
Unemployment rate of persons < 25 years: proportion of the labour force aged <25 that is unemployed	Unit (x1)	%	12)	:	:	:	:	:	:	:	26,8	:	:	:
SI: Long-term unemployment rate: proportion of the labour force that is long-term unemployed	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
Social cohesion	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
SI: Inequality of income distribution: ratio of top quintile to lowest quintile	Unit (x1)	Number	13)	:	:	:	:	:	:	:	3,2	:	:	:

SI: Early school-leavers: proportion of the population aged 18-24 having not completed upper secondary education and who are currently not in any education or training	Unit (x1)	%	:	:	:	:	:	:	:	:	:	:	:	:
SI: Children aged 0-17 living in jobless households: share of children aged 0-17	Unit (x1)	%	:	:	:	:	:	:	:	:	:	:	:	:
SI: Persons aged 18-59 living in jobless households: share of persons aged 18-59	Unit (x1)	%	:	:	:	:	:	:	:	:	:	:	:	:

Standard of living	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of passenger cars / population	Unit (x1)	per 1000		:	:	:	:	32,5	37,4	43,6	48,2	56,3	60,9	:
Number of main telephone lines (fixed) / population	Unit (x1)	per 1000		:	20,9	28,1	37,8	:	:	64,5	71,3	82,2	:	:
Number of subscriptions to cellular mobile telephone services / population	Unit (x1)	per 1000		:	0,8	1,1	1,8	:	:	128,2	275,9	354,5	:	:

Infrastructure	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Density of railway network (lines in operation)	Unit (x1)	per 1000 km ²		:	:	:	:	:	13,9	14,3	15,0	15,0	15,0	15,0
Length of motorways	Thousand	km		:	:	:	:	:	:	:	:	0,0	0,0	0,0

Industry and agriculture	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industrial production volume index (2000=100)	Unit (x1)	Number		:	:	:	:	:	:	:	:	:	:	:
Agricultural production volume indices of goods and services (at producer prices) (previous year = 100)	Unit (x1)	Number		:	:	:	:	:	:	:	:	102,9	105,1	:

Innovation and research	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
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	:	:
SI: Gross domestic expenditure on research & development, relative to GDP	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home. All forms of Internet use are included. The population considered is aged 16 to 74.	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:

Environment	Scale	Unit		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
SI: Total greenhouse gases emissions, CO ₂ equivalent (1990=100)	Unit (x1)	Tonnes		:	:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy	Unit (x1)	kg of oil equivalent per EUR 1000 GDP		:	:	:	:	:	:	:	:	:	:	:
SI: Share of renewable energy in electricity consumption	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:
SI: Road freight transport as a share of total inland freight transport (Modal split of freight transport)	Unit (x1)	%		:	:	:	:	:	:	:	:	:	:	:

e : estimate

f : forecast

p : provisional

- 1) As of 1 January. From 1995-2000, population was revised based on the 1989 and 2001 population census.
- 2) The data of GDP at Expenditure Approach are not yet published in the last publication of INSTAT.
- 3) Until now it is not possible to calculate separately stock variation. The data of this indicator are in % together: "stock variation & statistical discrepancy". The data of GDP at Expenditure Approach are not yet published in the last publication of INSTAT.
- 4) Variation between December of one year compared with December of the previous year.
- 5) Debt Outstanding Disbursed (DOD) cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credit.
- 6) Average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.
- 7) Deposit interest rate represents the average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.
- 8) From 1995-2000, population projections based on the 1989 population census.
- 9) Source: Ministry of Health.
- 10) Administrative data.
- 11) Administrative data; unemployment refer to registered unemployment.