



Brussels, 10.10.2012
SWD(2012) 334 final

COMMISSION STAFF WORKING DOCUMENT

ALBANIA 2012 PROGRESS REPORT

accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2012-2013

{COM(2012) 600 final}

TABLE OF CONTENTS

1.	Introduction.....	4
1.1.	Preface.....	4
1.2.	Context.....	4
1.3.	Relations between the EU and Albania.....	5
2.	Political criteria.....	6
2.1.	Democracy and the rule of law.....	6
2.2.	Human rights and the protection of minorities.....	16
2.3.	Regional issues and international obligations.....	23
3.	Economic criteria.....	24
3.1.	The existence of a functioning market economy.....	24
3.2.	The capacity to cope with competitive pressure and market forces within the Union.....	29
4.	Ability to take on the obligations of membership.....	31
4.1.	Chapter 1: Free movement of goods.....	31
4.2.	Chapter 2: Freedom of movement for workers.....	32
4.3.	Chapter 3: Right of establishment and freedom to provide services.....	33
4.4.	Chapter 4: Free movement of capital.....	33
4.5.	Chapter 5: Public procurement.....	34
4.6.	Chapter 6: Company law.....	35
4.7.	Chapter 7: Intellectual property law.....	36
4.8.	Chapter 8: Competition policy.....	36
4.9.	Chapter 9: Financial services.....	37
4.10.	Chapter 10: Information society and media.....	39
4.11.	Chapter 11: Agriculture and rural development.....	40
4.12.	Chapter 12: Food safety, veterinary and phytosanitary policy.....	41
4.13.	Chapter 13: Fisheries.....	42
4.14.	Chapter 14: Transport policy.....	42
4.15.	Chapter 15: Energy.....	44
4.16.	Chapter 16: Taxation.....	45
4.17.	Chapter 17: Economic and monetary policy.....	46
4.18.	Chapter 18: Statistics.....	47
4.19.	Chapter 19: Social policy and employment.....	47
4.20.	Chapter 20: Enterprise and industrial policy.....	49
4.21.	Chapter 21: Trans-European networks.....	50

4.22.	Chapter 22: Regional policy and coordination of structural instruments	51
4.23.	Chapter 23: Judiciary and fundamental rights	52
4.24.	Chapter 24: Justice, freedom and security	56
4.25.	Chapter 25: Science and research	58
4.26.	Chapter 26: Education and culture	59
4.27.	Chapter 27: Environment and climate change	60
4.28.	Chapter 28: Consumer and health protection.....	61
4.29.	Chapter 29: Customs Union	63
4.30.	Chapter 30: External relations.....	64
4.31.	Chapter 31: Foreign, security and defence policy.....	65
4.32.	Chapter 32: Financial control.....	66
4.33.	Chapter 33: Financial and budgetary provisions.....	67

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 is the second report on the country's progress following the publication of the Commission Opinion on Albania's application for membership of the European Union, issued in November 2010.

This report on progress made by Albania on preparing for EU membership:

- briefly describes relations between Albania and the Union;
- analyses the situation in Albania in terms of the political criteria for membership;
- analyses the situation in Albania on the basis of the economic criteria for membership;
- reviews developments as regards Albania's capacity to take on the obligations of membership, that is the *acquis* expressed in the Treaties, the secondary legislation and the policies of the Union.

This report covers the period from October 2011 to September 2012. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are being prepared or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

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

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

1.2. Context

The Stabilisation and Association Agreement between the EU and Albania was signed in June 2006 and entered into force in April 2009.

Albania presented its application for membership of the European Union on 28 April 2009. Following a request by the Council, the Commission submitted its Opinion on Albania's application in November 2010. In December 2010, the Council endorsed the Commission Opinion's recommendations. In its conclusions, the Council noted that the opening of accession negotiations will be considered by the European Council, in line with established practice, once the Commission has assessed that the country has achieved the necessary degree of compliance with the membership criteria and, in particular, has met the key priorities³ set out in the Commission's Opinion. The Commission's 2012 progress report, like that of 2011, focuses on implementation of these key priorities.

¹ The rapporteur for Albania is Mr Nikolaos Chountis.

² Enlargement Strategy and Main Challenges 2012-2013, COM(2012) 600.

³ The key priorities concern the following areas: the proper functioning of parliament; adopting reinforced majority laws; appointment procedures and appointments for key institutions; electoral reform; the conduct of elections; public administration reform; the rule of law and judicial reform; fighting corruption; fighting organised crime; addressing property issues; reinforcing human rights and

1.3. Relations between the EU and Albania

Albania is participating in the **Stabilisation and Association Process**.

Overall, Albania has been implementing its obligations under the **Stabilisation and Association Agreement (SAA)** well. It participated in the regular political and economic dialogue between the EU and the country through the SAA structures and contributed to the smooth functioning of the various joint institutions. Meetings of the Stabilisation and Association Committee and Council were held in March and May 2012 respectively. Six subcommittee meetings were held in the reporting period. Furthermore, the SA Council agreed to set up a special group on Public Administration Reform within the SAA structures. Multilateral economic dialogue between the Commission, EU Member States and potential candidate countries in the context of pre-accession fiscal surveillance took place at an expert meeting in May 2012.

Visa liberalisation for citizens of Albania travelling to the Schengen area has been in force since December 2010. The Commission set up a post-visa-liberalisation monitoring mechanism to assess whether the implementation of reforms introduced by the country was consistent with the visa roadmap and sustainable. This was complemented with an alert mechanism to prevent abuses. The Commission presented its second monitoring report to the European Parliament and the Council in December 2011 and adopted the third in August 2012. A **readmission agreement** between the European Union and Albania has been in force since 2006.

Pre-accession **financial assistance** is provided under the Instrument for Pre-Accession Assistance (IPA). In the framework of IPA component I - Transition Assistance and Institution Building, the EU allocated a total amount of approximately €530 million for Albania in the period 2007-13. The yearly envelopes of the National Programme under this component provided €82 million for 2011 and €86.9 million for 2012. The Multiannual Indicative Planning Document (MIPD) for 2011-2013 envisages a sectoral approach with the focus on Justice and Home Affairs, Public Administration Reform, Transport, Environment and Climate Change, Social Development, and Agriculture and Rural Development. IPA assistance in the framework of this component is implemented under the supervision of the EU Delegation in Tirana.

In the frame of IPA component II – Cross-border Cooperation, Albania participates in the management and implementation of three programmes within the Western Balkans (with Montenegro, the former Yugoslav Republic of Macedonia and Kosovo*); one bilateral cross-border cooperation programme with an EU Member State (Greece); and three multilateral programmes (including EU Member States), i.e. the ERDF European trans-national programmes ‘South East Europe’ and ‘Mediterranean’, and the Adriatic regional programme.

Civil society has received financial support from the EU under the IPA Civil Society Facility (2011-2012) and through the European Instrument for Democracy and Human Rights. The IPA provided support to national civil society organisations (CSOs) in the fields of justice (access to justice, fight against corruption and monitoring/improvement of living conditions in detention system), protection of vulnerable groups (disadvantaged women, children and the elderly, and minority groups) and environmental protection. The objectives of this assistance include wider involvement by civil society in decision-making, strengthening of CSOs’

implementing anti-discrimination policies; improving the treatment of detainees and applying recommendations of the Ombudsman. For the full text of the key priorities, *see COM (2010)680*.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

management and organisational capacity and improvement of their legal and fiscal framework.

The EU has co-financed Albania's participation in the following **EU Programmes**: 'Seventh Research Framework Programme'; 'Entrepreneurship and Innovation Programme' (EIP) of the 'Competitiveness and Innovation Framework Programme', 'Youth in Action', 'Europe for Citizens' and 'Culture'.

2. POLITICAL CRITERIA

This section examines the 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 assesses Albania's progress in addressing the twelve key priorities identified in the European Commission's Opinion on Albania's application for membership of the European Union. In this context, Albania adopted an Action Plan for addressing the recommendations of the Opinion in March 2012.

This section also monitors compliance with international obligations, regional cooperation and good neighbourly relations with enlargement countries and Member States.

It analyses fulfilment of the 2010 Opinion's key priorities in particular.

2.1. Democracy and the rule of law

The ruling majority and opposition reached a political agreement in November 2011 which marked the end of the political stalemate stemming from the 2009 parliamentary elections. This agreement established a plan and timetable for carrying out electoral reform, for improving the parliament's rules of procedure and for adopting all pending laws requiring reinforced majority.

The ruling majority and opposition remained generally committed to the key political reforms stemming from this agreement and political dialogue has improved considerably ever since. The process of working on the implementation of the 12 key priorities has, overall, been an inclusive one. Yet there were short periods of confrontational rhetoric between government, opposition and other state institutions, notably in relation to investigations into the events of 21 January 2011 and to the nomination by parliament of a member of the High Council of Justice. Since November 2011, significant progress has been made by adopting pending reinforced majority laws, appointing an Ombudsman, adopting amendments to the electoral code, and towards revising parliamentary rules of procedure. This created a climate of cross-party cooperation, which enabled reform progress also in other areas under the political criteria.

The presidential elections in June 2012 were conducted in line with the Constitution, but the political process surrounding them did not build on the positive cross-party dialogue launched in November. Yet, constructive dialogue resumed shortly thereafter as demonstrated notably by the completion of electoral reform, a key element of the November political agreement.

Parliament

From November 2011, following the political agreement, dialogue and rhetoric in the parliament improved significantly, and a more constructive atmosphere was noted, in particular during committee and plenary meetings. This allowed progress in a number of areas.

All pending laws requiring a reinforced three-fifth majority vote were adopted, including notably amendments to the criminal and civil code and the long pending Law on Administrative Courts. An Ombudsman was appointed following a transparent and merit-based selection process with public hearings, followed by a consensual vote in the parliament. A hearing and voting process in parliament was conducted for the presidential nomination of a judge to the High Court. These are key priorities of the Opinion.

The working group on the improvement of parliament's rules of procedure established in November 2011 reached agreement on a large number of draft amendments to the rules of procedure (including two amendments in relation to the role of the European integration committee) and prepared amendments to the law on the status of MPs. Amendments to the rules of procedure are pending adoption in the Assembly. The working group did not agree on two issues raised by the opposition, namely re-introducing secret voting on presidential decrees and granting equal speaking time rights to the opposition when speaking in reply to the Prime Minister.

Progress was made in the functioning of parliamentary procedures (a key priority of the Opinion), with the adoption of a considerable number of acts, including laws, decisions, resolutions and declarations. In a significant number of cases these were approved by consensus. Progress was also noted in terms of improving public consultation in the legislative process. Under its new chairman, the Committee on European Integration (CEI) was actively involved with the Ministry of Integration in developing and monitoring relevant parts of the Action Plan for addressing the recommendations of the Opinion. The CEI involved civil society in the review of the Action Plan. The chairman of the CEI attended the Stabilisation and Association (SA) Council meeting of May 2012 and for the second time it was possible to issue a joint statement at the SA Parliamentary Committee in July, which was agreed by both parties.

However, work needs to continue to further improve the functioning of the parliament. The working calendar of the parliament does not always give enough time to standing committees for proper review and for public hearings on draft laws, which, as a result, are often adopted in an expedited manner potentially to the detriment of quality. Draft laws are often not accessible to the public. Building on the recent completion of the adoption of pending laws requiring a reinforced majority, the parliament needs to create an effective targeted approach and methodology for preparing and negotiating such laws. Further efforts are required to strengthen the parliament's oversight function, including reinforcing the use of interpellations with members of the government and written questions and answers. Work is needed on analysing and modifying the legal framework in view of necessary enhancement of the role of the CEI. In this context, relations between the CEI and other parliamentary committees are to be improved.

Some progress was made in strengthening the administrative capacity of the parliament Secretariat through training of staff and expert advice, including by international experts. A multiannual training strategy for the parliament's staff was adopted in May 2012. The unit for legal approximation in the parliament was strengthened by the hiring of a further adviser. Efforts were made to increase transparency in the functioning of the parliament's administration. This holds in particular true for budgetary aspects through publication of expenditures' reports for the first half of 2012 on the Parliament's website. However, the administrative capacity of the parliament needs substantial further strengthening in particular in relation to the European integration agenda.

In July 2012 parliament conducted a hearing and approved the presidential nomination of a judge to fill one outstanding vacancy in the High Court (a key priority of the Opinion). There

were no hearing and voting processes in parliament for presidential appointments to the Constitutional Court in the reference period.

On 11 June 2012, Parliament elected Mr Bujar Nishani as President of the Republic in the fourth round of the elections with 73 votes out of 76. Opposition MPs attended the session but did not vote. The election was in line with the Constitution, yet expectations of a consensual candidate were not met. In the first three rounds of the election, which would have required a reinforced three-fifths majority vote, no candidates were officially put forward as consultations between the ruling majority and opposition had not led to the emergence of a candidate who could gather broad support.

On electoral reform, a key priority of the Opinion, representatives of both government and opposition in the ad hoc parliamentary committee established in November 2011 worked in an overall spirit of constructive cooperation. The committee achieved good results and agreed on amendments to the electoral legislative framework addressing the majority of the recommendations of the OSCE/ODIHR 2009 and 2011 election observation missions. These include provisions on registration of electoral subjects, gender quotas, electoral campaign funding and complaints and appeals mechanisms. The composition of the Central Election Commission and the system of appointment of its members were also revised in view of increasing its independence and impartiality. The revised electoral code was consensually adopted by Parliament on 19 July.

Overall, the functioning of parliament and political dialogue has considerably improved as a result of the November 2011 political agreement. This allowed significant progress to be made through the adoption of all pending laws requiring a reinforced majority, the appointment of an Ombudsman, the conduct of a hearing and voting process for the presidential nomination of a judge to the High Court, and adoption of amendments to the electoral code. It is now essential that revised parliamentary rules of procedure are adopted. On 11 June 2012, a new president was elected in the fourth round of the election with the votes of the ruling majority only. Although in line with the Constitution, the presidential election failed to meet all expectations of inclusiveness and put a strain on the consolidation of political dialogue and cooperation. This contributed to a temporary slowdown in reform efforts in core areas requiring political consensus, which was overcome shortly thereafter.

Government

The government and ruling coalition consisting of the Democratic Party and the Socialist Movement for Integration remained in place and stable in the reference period. In March and June 2012, a government reshuffle took place.

The Ministry of European Integration (MEI), in cooperation with the Parliamentary Committee for European Integration, played the key role in the revision of the Action Plan to address the Opinion's key priorities. The revision process was transparent and participatory, and included consultations with non-governmental actors. The Action Plan has been improved by clarifying the content of measures and specifying deliverables. A monthly monitoring mechanism was smoothly implemented. Good cooperation between the chair of the Parliamentary Committee on European Integration and the Minister of European Integration on the country's EU reform challenges continued beyond work on the action plan, including through joint participation at the May 2012 EU-Albania SA Council.

There has been progress in updating the National Plan for the Implementation of the SAA (NPISAA). The updated NPISAA was approved by a Council of Ministers decision in July 2012, which *inter alia* specifies the responsibilities for implementation as well as monitoring and reporting requirements. The decision tasks the line institutions to decide amongst

themselves the distribution of institutional responsibilities for transposition and implementation of individual acts of EU law within three months of entry into force of the decision. Once implemented, this distribution will be an important step towards the comprehensive revision and more realistic planning of NPISAA

There has been some progress in coordinating processes for aligning legislation with the *acquis*. The MEI has continued working on legislative gap analysis. An IT system for legal approximation (IMS), which is a part of ‘e-cabinet’, the government’s overall IT system, has been introduced. The system contains information on measures of legal alignment with the *acquis*. The introduction of the IMS increases the transparency and efficiency of the system for planning and monitoring the alignment process, although the timing and quality of relevant mechanisms require further improvement.

The policy-making and legislative drafting processes in line ministries are still subject to shortfalls in prior analytical work and there is not enough transparency or consultation with relevant stakeholders. Staff turnover and weaknesses in analytical capacity have had an impact on the quality of legislation drafted. More attention should be paid to the implementation and enforcement of legislation.

There has been only moderate progress regarding the coordination of the EU integration process. Comprehensive and sustainable capacity development of the 35 interinstitutional working groups and further improvement of policy coordination among institutions is necessary.

Regarding local governance, no progress was made on territorial administrative reform. Small *local government* units are in many cases not economically sustainable. The Law on Territorial Planning was adopted in 2009 but implementation is slow.

There was no improvement in revenue collection by local authorities during 2011. Significant additional efforts are needed to strengthen both the administrative efficiency and the financial sustainability of municipalities. Particular attention is needed in the areas of strategic planning, human resources management and financial control. Further efforts are needed to ensure transparency and a strategic approach in central funding for municipal projects, particularly for infrastructure. Local government decision-making lacks transparency and consultation with civil society organisations and other relevant stakeholders.

Lengthy and over-politicised debates concerning the composition of local government bodies in some cases hindered their effective functioning and the consolidation of representative democracy at local level. The existence of two separate local government associations, split in membership between the two main political parties, has hindered cooperation at municipal level and weakened the position of local authorities vis-à-vis the central government. Due to political disagreement between the associations, Albania has not been able to select and thus be represented by a delegation in the Congress of Local and Regional Authorities of the Council of Europe since May 2011.

Local governments have slowly started implementing the Council of Ministers’ June 2011 decision on the structure and organisation of public institutions. The percentage of civil servants with temporary contracts remains particularly high in local authorities.

Overall, there has been some progress with regard to the work of government. This includes good progress on coordinating the EU integration process through the revision of the action plan to address the Opinion’s key priorities, which was conducted in a transparent and participatory manner. Good cooperation between the chair of the Parliamentary Committee on European Integration and the Minister of European Integration on the country’s EU reform challenges continued, including joint participation at the May 2012 EU-Albania SA Council.

Legislative drafting capacity and the planning process for aligning legislation with the *acquis* need to be further improved, notably through the effective implementation of the Council of Ministers decision on the NPISAA. As regards local government, the decentralisation of state responsibilities has not been matched by appropriate transfers in administrative and financial resources from central to local level. The existence of two separate local government associations is not conducive to improving the institutional relations between central and local government in view of a successful and transparent decentralisation process.

Public administration

Progress can be reported in the field of public administration reform, which is a key priority of the Opinion. In May, the parliament adopted the Law on Administrative Courts by a qualified majority. The law is an important step in reforming the judicial system, ensuring legal review of administrative decisions by independent courts, increasing transparency and fighting corruption in the civil service. The Law on the Organisation and Functioning of Public Administration, a structural law which aims at fighting fragmentation and coordination deficiencies and creating a general legal framework for the organisation of public administration, has been adopted. The government approved the draft Law on the Civil Service in August 2012 and it is currently in parliamentary procedure where it requires a qualified majority for adoption. The draft Law on General Administrative Procedures has not been finalised.

There is some progress regarding the implementation of legislation and administrative acts. The Council of Ministers' decision on defining the structure and organisation of public institutions has been implemented by 13 of the 14 ministries. The implementation of the Law on Inspections is progressing very slowly. The General Inspector was appointed only at the end of 2011. The relevant required secondary legislation is still not in place. The Prime Minister's Order setting a maximum limit of 2.5% on temporary contracts has been considerably implemented. In most cases, the central government institutions failed to request approval by the Department of Public Administration (DoPA) for recruitment based on temporary contracts or even disregarded the DoPA's refusal.

The DoPA still lacks the authority to play an effective role in monitoring public institutions under its remit and to enforce its decisions. Data gathering by the DoPA has improved. However, problems remain in terms of reliability and clear administrative rules on data collection and storage. The Human Resources Management Information System (HRMIS) is not fully operational. Its first pilot phase, for making the salary module functional, was successfully concluded in five institutions in April.

The Training Institute for Public Administration (TIPA) has conducted training activities in accordance with the 2012-2015 training plan, despite the shortages of premises and resources. A working group for drafting the final report for the future opening of the Albanian School of Public Administration (ASPA) was established in August.

The Civil Service Commission (CSC) has had only four of the required five members since September 2011, which impedes the institution's decision-making. Its annual budget has been gradually reduced and political support for its role has been diminishing. Nevertheless, the CSC has intensified its work and carried out several inspections in public institutions. The rate of execution of CSC decisions by state institutions remains very low, even when these decisions are upheld in court and become legally binding. The CSC remains a significant independent oversight body for public institutions and a fundamentally important tool of the parliament for monitoring the executive's use of the civil service.

The civil service continues to suffer from shortcomings related to politicisation and a lack of meritocracy in recruitment, promotion and dismissal of civil servants. In key sectors the public administration faces important challenges in fulfilling its tasks, including the management and follow-up of assistance programmes and the implementation of legislation aimed at alignment with the EU *acquis*.

Little progress was made in the area of auditing. A new Head of the Supreme State Audit Institution (SSAI) was appointed in December 2011 and an action plan has been launched to strengthen the institution. In 2011, the SSAI conducted 152 audits, mainly of legality, regularity and evaluation. Difficulties with the implementation of the structure of programmed audits and especially system audits were evident. The number of recommendations issued by SSAI to state authorities increased, while those non-implemented almost doubled compared to 2010. The SSAI report was approved by the parliament in May 2012. Considerable efforts are needed to increase the capacities and the performance of the SSAI.

Progress was made with the appointment of the *Ombudsman* in December, a key priority of the Opinion, which required reinforced majority in parliament. The open and transparent process resulted in a consensual decision in the parliament. A second regional office has been established in Fier. The institution needs sufficient financial and human resources, as well as continuing political support, to be able to fully implement its core duties.

Overall, there has been progress in public administration reform (a key priority of the Opinion) mainly through the adoption of the Laws on Administrative Courts and on the Organisation and Functioning of Public Administration as well as through the appointment of the Ombudsman. It is now essential to adopt the amendments to the Civil Service Law. Further efforts are needed to implement the adopted legislation and administrative acts. The legislative and institutional framework for public administration is still marked by deficiencies that need to be addressed with a view to strengthening professionalism, depoliticisation, meritocracy, transparency and accountability.

Judicial system (See also Chapter 23 – Judiciary and fundamental rights)

There has been moderate progress in judicial reform, which is a key priority of the Opinion. Implementation of the July 2011 cross-cutting Judicial Reform Strategy and the relevant Action Plan, revised in March 2012, has started. There are concerns over interinstitutional cooperation, budget allocations, budget planning, and the level of human resources in this sector. Albania needs to further accelerate the implementation of the judicial reform strategy in order to ensure the independence, efficiency and accountability of its judicial institutions.

A number of working groups were set up within the Ministry of Justice (MoJ) to review key legislation in the justice sector. Adoption of these laws requires a reinforced majority vote in parliament. The Law on Administrative Courts was adopted in May for implementation next year, and the Laws on the National Judicial Conference and the Profession of Lawyer were adopted in July and September respectively. The Law on Administrative Courts provides for first instance administrative courts to be set up at central and regional level, and for a court of appeal and a dedicated chamber in the High Court. This should ease the case burden of other courts and allow specialised judges to deal with administrative cases, provided that the necessary resources are allocated.

Some progress has been made with regard to the *independence* and impartiality of the judiciary. A set of new rules governing transfers of judges on the basis of their merits and other objective criteria was adopted in September 2012. Reform of the laws on the High Court and the Constitutional Court are still pending. The process of appointing judges to these

courts remains an issue of concern due to possible politicisation. The neutrality and independence of these institutions are still not fully guaranteed.

A countrywide evaluation of judges is under way. However, the new harmonised evaluation system has not yet been fully implemented. This has had an impact on the Commission's work on transfers, promotion and the appointment of judges, as it still needs to be demonstrated that these are based on merit and subject to accountability.

A new Vice-President of the High Council of Justice (HCJ) was appointed in August. Given the importance of the HCJ, its administrative and organisational structure needs to be reviewed urgently in order to increase its efficiency, accountability and transparency.

The School of Magistrates is providing good quality curricula, including training courses on ethical issues. However, the school's budget remains insufficient to cover its planned activities.

Further efforts are needed to extend the computerised system of management and random allocation of cases to all courts, in particular in Tirana, to achieve a uniform and harmonised system. This would also promote sound collection of statistics. Appropriate IT support for the courts is lacking, as is a strategic approach to further development of IT solutions in the judicial sector. An audio-recording system for court proceedings is gradually being introduced.

Publication of court decisions is still not systematic. Decisions are published with delays, in a way that is not consistent between the courts, and, in some cases, does not provide adequate protection of personal data. However, as from July, specific provisions entered into force on the processing and publication of personal data within the judicial system. Further, a new judicial web portal was created in July. The updating of an electronic database at the Judicial Documentation Centre remains problematic due to a lack of staff.

In relation to *accountability* in the judiciary, steps have been taken to address overlapping inspection powers between the inspectorates of the HCJ and of the Ministry of Justice through the implementation of a Memorandum of Understanding on inspections; yet, the risk of overlapping persists. Poor drafting of judgments, in particular insufficient reasoning, remains an issue of concern.

Good progress has been made in combating corruption within the judiciary through the adoption of constitutional amendments limiting the immunity of judges. The reform allows for the investigation and criminal prosecution of judges without prior authorisation. The implementation of these provisions should be carefully monitored and relevant amendments introduced in the Code of Criminal Procedure. Poor working conditions, a lack of adequate safety arrangements for courts and judges and generally low remuneration, plus the absence of adequate controls and the opaque system of appointments, promotions and transfers, continue to be key risk factors for corruption in the judiciary.

A code of ethics for judges is in place but effective implementation remains a challenge. Inspections have been carried out but further training and a concrete implementation mechanism remain essential. An online procedure allowing citizens to complain against judges and court proceedings was set up in May.

Limited progress was made regarding the *efficiency* of the judiciary. Although a study on the possible territorial reorganisation of courts and reallocation of the number of judges in the courts was made, implementation of its conclusions was delayed. Court efficiency is also hindered by the absence of an accurate civil registry and a proper address system.

The lack of a comprehensive legal framework on judicial administration in line with European standards, with clearly organised courts and judicial staff, hampers the transparency and efficiency of court activities. Hearings often continue to be held in judges' offices and little progress has been made in improving working conditions in courts. This can have a negative effect on the impartiality of the proceedings. Some progress has been made regarding the training of chancellors, court officers and judicial administrators and a budget has been allocated for continuous training activities. However, the overall budget allocated to courts and judicial staff needs to be increased to make the training sustainable.

Court management remains poor due to a lack of human and financial resources. The annual budget for the judiciary has barely increased. In 2012 it amounts to €69.6 million, which represents 0.71% of the GDP.

Limited resources also contribute to the heavy workload in courts, including the Constitutional Court and the High Court, both of which have significant backlogs of cases. In the case of the High Court, the backlog is also a reflection of the Court's very broad competence.

The Code of Civil Procedure and the Code of Criminal Procedure need to be amended to increase the efficiency of court proceedings. Both codes are currently under review. The new law on the profession of lawyer provides for enhanced procedures against lawyers in cases of professional misconduct. Further changes are needed to effectively address the problem of unreasonable delays in court cases, caused by postponement of court proceedings. These are often due to the absence of lawyers and/or prosecutors, in criminal cases, or by the absence of lawyers and/or witnesses, in civil ones. Court backlogs and the excessive length of proceedings undermine the efficiency of the judicial system. The Chamber of Lawyers lacks effective supervisory and training capacities.

Enforcement of court decisions remains weak, particularly in cases where state institutions are the defendants. Albania has yet to provide the Council of Europe with clear data on enforcement of decisions relating to restitution/compensation for property nationalised under the communist regime. The introduction of an effective remedy for the non-execution of final decisions is needed.

The new private bailiff system is in place and a budget for the National Chamber of Private Bailiffs has been allocated for the first time.

As regards the Law on Mediation, regulations on the activity of mediators and first licences have been issued. However, a Chamber of Mediators has not yet been set up. Amendments to the Law on Arbitration are awaiting finalisation and adoption.

The verdict in the so-called Gërdec case (the 2008 explosion which killed 26 people) was delivered in March. Five of the 29 accused were given prison sentences ranging from 6 to 18 years; the remainder received lower sentences or were acquitted. Appeal proceedings are pending. In a parallel development, the Constitutional Court overturned in May a High Court decision dropping charges against a former Defence Minister concerning his alleged role in the Gërdec case; the matter will now be reconsidered by the High Court.

In relation to the death of four demonstrators during the events of 21 January 2011, the criminal proceedings have so far led to the house arrest of a former commander of the National Guard and the pre-trial detention of an officer of the Guard for their alleged involvement in the shooting. One other person is under house arrest, and another has been acquitted, for obstructing justice by contaminating evidence. Investigations on the alleged involvement of opposition Members of Parliament in instigating the events are ongoing.

These proceedings need to be completed by prosecution and courts without undue interference.

Overall, moderate progress has been made in addressing judicial reforms, which is a key priority of the Opinion. The judicial reform strategy and the relevant action plan of March 2012 have started to be implemented. The Law on Administrative Courts, the Law on the National Judicial Conference, and the Law on the Profession of Lawyer have been adopted. Steps have been taken to restrict the immunity of judges. The new private bailiff system is operational. However, important legislation to further strengthen the independence, accountability and efficiency of the judiciary still awaits finalisation, adoption and implementation. In this respect, it is now essential that amendments to the Law on the High Court are adopted. Court organisation, transparency, case backlogs, and the rate of enforcement of decisions continue to raise concern for the efficiency of the judiciary, as does budget allocation. The proceedings to shed light on the events of the 21 January 2011 need to be completed through a credible judicial process. Good progress is reported in the fight against corruption in the judiciary, through the limitation of the immunity of judges. Albania needs to further accelerate the implementation of the judicial reform strategy in order to ensure the independence, efficiency and accountability of its judicial institutions.

Anti-corruption policy (See also Chapter 23 – Judiciary and fundamental rights)

Moderate progress was made regarding policies to fight corruption, which are a key priority of the Opinion. The implementation of the anti-corruption strategy and specific measures in different sectors and areas under the 2011-2013 action plan has continued, albeit slowly. Reports on the implementation of the action plan, including from line ministries and other relevant institutions, are not yet published on a regular basis.

There has been moderate progress in strengthening the legal framework. This includes the implementation of recommendations of the Group of States against Corruption (GRECO) related to incrimination and political party financing. Amendments to the Criminal Code on acts of corruption by foreign officials and on imposing major penalties for corruption in the private sector were adopted in March 2012. Regarding political party financing, the Central Election Commission adopted a decision in January 2012 to fulfil the GRECO's latest recommendation.

Amendments to the Law on Notaries were passed, introducing the digitalisation of notaries' activities. The implementing legislation still has to be finalised and brought into force.

Some progress was made, through constitutional changes, to restrict the immunity of high-level public officials and judges, which is not only a fundamental obstacle to proper investigation into possible corruption cases in Albania but also contributes to the wider public perception of persistent impunity of some members of society in this area.

The Department of Internal Control and Anti-Corruption (DIACA) does not have sufficient institutional independence, authority and administrative capacity to accomplish its tasks. Weaknesses in cooperation between DIACA and other institutions are reflected in a lack of progress in its reporting, coordination and monitoring activities. Limited staff, particularly experts specialised in prevention and prosecution, and a lack of financial resources remain a serious constraint on the DIACA's work.

Efforts were made to improve interinstitutional cooperation. Two interinstitutional working groups were set up to exchange information and devise a standardised format for a consolidated data system for criminal offences involving corruption and organised crime. The High Inspectorate for Declaration and Audit of Assets (HIDAA) signed a Memorandum of Understanding (MoU) with the Supreme State Audit, aimed at setting up a database on

suspected corruption in the public administration. An MoU has also been signed with the Ombudsman. MoUs were signed between HIDAA and the Immovable Property Registration Office (IPRO), the Agency for the Legalisation, Urbanisation and Integration of Informal Areas/Constructions (ALUIZNI) and the Ministry of Justice respectively in order to facilitate exchange of information on immovable properties. MoUs between HIDAA and both the High Council of Justice and the High Court have not yet been drafted. An analysis of the implementation and effectiveness of existing agreements needs to be conducted. On 6 June 2012, a Council of Ministers decision established that all notaries and General Prosecution will have access to the real estate registry.

Amendments to the Law on the Prevention of Conflict of Interest in the Exercise of Public Functions and the Law on the Declaration of Assets and Audit of Assets and Financial Obligations of Elected and Some Public Officials were adopted. The changes to these laws aim to strengthen the competence and authority of HIDAA in this area and introduce certain legal improvements facilitating investigations.

The Financial Investigation Unit has signed agreements on exchanging information with the customs service, the Immovable Property Registration Agency and the vehicle registry. The implementation of this agreement and the actual degree of access to information needs to be checked. Digitalisation of the relevant information remains a challenge. No progress was made in setting up a central registry of bank accounts.

Joint Investigative Units (JIU) continued to be good instruments for investigating and prosecuting corruption cases. The HIDAA made progress in the detection of suspicious declarations; there have been some police investigations of corruption cases and prosecution of low and mid-level officials has increased. However, convictions in corruption cases remain rare. There is not yet a convincing track record of investigations, prosecutions and convictions in corruption cases at all levels including senior officials. A lack of expertise in financial investigations and of technical equipment for special investigative measures hampers the effectiveness of investigations in corruption cases. A particular concern is the general culture of a reactive approach to investigating corruption cases and the almost complete lack of proactive investigations. Intelligence from different sources has not systematically been followed up on and risk assessment is not systematically used.

Limited human and financial resources remain a constraint for the Joint Investigative Units, the HIDAA, the Prosecutor's Office and the different departments dealing with anti-corruption measures. Internal control departments often lack specialist expertise and remain insufficiently focused on fighting corruption. The level of cooperation between law enforcement agencies, in particular between the police and prosecutors, remains insufficient. Institutions in charge of investigations, inspections, and sentencing remain vulnerable to political pressure and undue influence. Civil society still plays a limited role in the fight against corruption. Criminal statistics and statistics on conflict of interest cases need to be strengthened.

The new code of ethics adopted by the General Director of Taxes was published and disseminated. However, corruption in tax services, and particularly tax inspection, is an issue of great concern that seriously affects the business environment. Cameras have been installed at several customs border points. The effectiveness of such systems needs to be checked in the absence of other more targeted measures to fight customs corruption. There are not enough checks on tax and customs officers' assets.

The overall planning and implementation of anti-corruption measures in the justice system remains insufficient. There is not yet a track record of disciplinary measures against judges or

sound auditing of judges' assets. Corruption in the judiciary remains a particularly serious problem as the judiciary should be one of the key institutions in the fight against corruption.

As part of the school curriculum, a manual for teachers has been drafted as a pilot to raise awareness of relevant corruption risks. However, corruption in the education system remains an issue of concern especially in higher education establishments, which are insufficiently inspected. In the health sector, the effectiveness of anti-corruption measures is called into question by insufficient monitoring of reporting requirements, such as those on the use of medicines in hospitals. Bribery of medical personnel is still inadequately followed up on.

With regard to specific preventive measures such as awareness-raising initiatives, progress is limited. Existing 'green' lines and e-templates to report cases are insufficiently focused on fighting corruption and have yet to produce meaningful results.

Overall, moderate progress was made in the fight against corruption, which is a key priority of the Opinion. Steps were taken to restrict the unlimited immunity of high-level public officials and judges. Some efforts were made to improve interinstitutional cooperation, exchange of information and the prosecution of generally low and medium-level cases. However, the absence of a proactive approach and lack of resources and equipment continue to obstruct effective investigations. There is no adequate track record of investigations, prosecution and convictions at all levels. Corruption is prevalent in many areas and continues to be a particularly serious problem.

2.2. Human rights and the protection of minorities (*See also Chapter 23 – Judiciary and fundamental rights*)

Observance of international human rights law

Albania made progress in acceding to **international human rights instruments** by signing the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence in December 2011. Its ratification, and that of the UN Convention on the Rights of Persons with Disabilities, signed in December 2009, is pending. Delays in application and non-compliance with judgments of the **European Court of Human Rights** (ECtHR), particularly in relation to property rights and the right to a fair trial, continue to be an issue of concern. During the reporting period, the ECtHR delivered judgments on eight applications finding that Albania had violated rights guaranteed by the European Convention on Human Rights (ECHR). A total of 98 new applications have been submitted to the ECtHR since September 2011, bringing the total of pending applications to 379.

As regards **promotion and enforcement of human rights**, the new Ombudsman has taken on a proactive role since his appointment. However, the Ombudsman's Office still has difficulties in securing sufficient funding to fulfil its legal obligations, notably for monitoring visits. The Office of the Commissioner for Protection from Discrimination (CPD) has focused its activities on awareness raising and strengthening the capacity of its staff. Cooperation agreements have been signed with line ministries and the Commissioner has started to systematise case management. Nonetheless, the number of cases handled by the Commissioner remains relatively low. Albania's respect for human rights continues to be monitored by international bodies.

Civil and political rights

There has been progress in the **prevention of torture and ill-treatment** and the fight against impunity, which is part of a key priority of the Opinion. The General Directorates of Prisons and State Police have carried out thematic training courses and inspections. The General Directorate of the State Police set up a working group to address the Ombudsman's recommendations and started cooperating with two NGOs for the provision of training and

monitoring of police premises. Amendments to the handbook on the rules and treatment of arrested and detained persons in police stations were adopted and a new electronic database for escorted and arrested persons introduced. A new form was introduced, based on the Istanbul Protocol, for medical staff to document cases of ill-treatment in the prison system and a sample register model for treating complaints of escorted and arrested persons in police stations was approved. Some police holding cells which were in very poor condition have been taken out of use. However, some cases of ill-treatment and excessive use of force have still been reported and conditions in some prisons and police holding cells remain below standard. Despite the positive trend in this field, there are still reports that procedures for processing accompanied or arrested persons were not systematically observed. Cases of ill-treatment continue to be often handled through administrative rather than judicial procedures. The majority of the Ombudsman's recommendations in this field were addressed to the State Police. There has been an increase in follow-up of the Ombudsman's recommendations, yet a number of recommendations remain unimplemented or partially implemented.

Joint work between the Ministries of Justice and Health led to a decision to build a dedicated special medical institution for treating mentally ill offenders, including those under mandatory treatment. However, it will take time for this facility to be established and concerns remain over the currently insufficient specialist care and treatment for this category of patients. The Law on Mental Health was adopted in April 2012.

In June 2012, the Albanian State Police launched a database of persons directly involved in blood feuds. This could help to address the lack of reliable data in this area. More decisive action by the authorities is needed to address this problem. At the end of 2011, concern arose over the issuing of false blood feud certificates by a civil society organisation enabling application for asylum in some EU Member States.

Progress has been made concerning the **prison system**, with continued implementation of training programmes, an increase in the activities offered to prisoners and a general improvement in the standards of treatment of detainees. Increased follow-up of the Ombudsman's recommendations has had a positive impact on detention conditions. Over recent years, several new penitentiary facilities have been built which need to be sustained through adequate maintenance budgets. Adoption of the regulation for penitentiary infrastructure planning is pending. Prisoners' living standards continue to vary according to the availability of food or equipment provided by their families. Installation of locked cabinets has improved confidentiality of personal medical data which needs to be ensured through continued training of prison staff on safeguarding detainees' right to privacy and confidentiality. Progress on replacing individual padlocks, a safety hazard, with more modern systems is slow.

The establishment of the Probation Service has had a positive impact on reducing overcrowding and preventing reoffending. Four new regional offices were open in January 2012 and plans for developing the Service, including hiring additional probation specialists, have been approved. This will help reduce the case-load per specialist and improve the functioning of the Service. The Law on Electronic Monitoring of Offenders came into force in April 2012 and a tender was launched to select an electronic monitoring provider. Continued over-use of pre-trial detention for low-risk offenders and juveniles remains a concern.

Little progress was made as regards **access to justice**. The implementation of the Law on Free Legal Aid has been slow due to insufficient budgetary allocations and a lack of coordination between relevant institutions. Additionally, neither the bylaws regarding the recruitment of free legal aid lawyers nor the procedures to request free legal aid are implemented effectively. The State Commission for Legal Aid has handled few cases and public awareness of the law

and the Commission's services is insufficient, including among local government staff working with vulnerable groups. Access to justice for vulnerable groups is not ensured, notably due to the high judicial administration fees. The excessive length of judicial proceedings remains a concern.

Freedom of expression is generally upheld in Albania. Good progress was made as regards defamation with the adoption in March 2012 of the amendments to the criminal and civil codes abolishing prison sentences and special protection of public officials. However, defamation remains a criminal offence, exposing journalists to potentially high fines. The moratorium on the use of defamation suits by government officials against journalists continues to be generally implemented. On the other hand, the number of defamation proceedings between politicians, notably MPs, raises concerns. The adoption of the law on Audiovisual Media Services has been further delayed. The public broadcaster's editorial independence from the government has not been strengthened. The government is still directly interfering with managerial appointments. The monthly public broadcasting fee has increased but the fee collection system is still not sustainable and needs to be reviewed.

Economic pressure on the media market has further increased, affecting the already precarious labour conditions of journalists. A high number of journalists work without formal employment contract, which has a direct impact on self-censorship. There is still no self-regulatory body and the capacity of journalists' trade unions remains weak. As regards the audio-visual and print media market, ownership transparency has improved but sources of financing remain opaque. Editorial independence continues to be hampered by private political and economic interests. There are concerns that public advertising is directed to television channels that are supportive of the government.

Freedom of assembly and association has generally been respected. The reporting period was marked by several demonstrations by citizens (former political prisoners, property claimants, disability organisations) and rallies by political parties. As regards civil society organisations, difficult access to financial sources, particularly affecting small NGOs in rural areas, still limits the capacity of Albanian civil society for advocacy and networking. The Agency for Support to Civil Society published its third call for proposals in November 2011 with a relatively short deadline for applicants to acquire and prepare the necessary documentation. No progress has been made in alleviating the conditions for voluntary activities in NGOs or improving the overall fiscal environment for NGOs. Social assistance and community-based services provided by Albanian NGOs suffer from a lack of public funding. As regards institutions' cooperation with civil society, dialogue needs to be further strengthened at central and local levels. Civil society is regularly involved in the policy development process and in legislative drafting but consultation is often a formalistic process which falls short of true cooperation.

Freedom of thought, conscience and religion continued to be respected. All five official religions continue to receive support from the state budget. Discussions on urban plans for new religious buildings in the capital continued.

Economic and social rights (See also Chapter 19 – Social policy and employment)

There has been some progress regarding **women's rights and gender equality**, which is part of a key priority of the Opinion. Albania has started to implement the 2011-2015 national strategy on gender equality and the fight against domestic violence and gender-based violence, for instance by drafting an action plan including costing and training courses for ministerial gender equality employees. In July 2012, a Council of Ministers decision on gender mainstreaming in the medium-term budget programme for all line Ministries was approved. Coordination between central and local government and awareness of the

requirements of the Strategy need to be improved. The network of full-time gender equality officers consists of 17 persons in municipalities and 2 in line ministries. Women continue to be under-represented in policy-making and politics. Electoral code amendments approved in August 2012 included increased penalties for parties not respecting the gender quota while not providing for rejection of lists that are not in line with the quota. Stricter application of the gender quota is necessary in view of preparation for the next parliamentary elections. Implementation of existing laws and policies on women's rights needs to be stepped up.

Amendments to the Criminal Code introducing sanctions of up to five years of imprisonment for the specific offence of domestic violence were adopted in March 2012. Awareness-raising has led to an increase in domestic violence cases reported to the police. The process of strengthening the network of National Referral Mechanism for victims of domestic violence is on-going, albeit at a relatively slow pace. However, the system of assistance to victims is not fully professional, with staff often not sufficiently specialised and unaware of some policies implemented by the central government. The national shelter for victims is operational but still relies to a large extent on external funding. Serious concerns over the running of the shelter led to changes in management which have had a positive impact on the protection of victims. Domestic violence still remains widespread and the need to strengthen the protection of women against all forms of violence remains. Albania remains a source country for trafficking in human beings and recent improvements need to be complemented with a victim-centred approach, including reintegration services and witness protection.

There has been uneven progress in the area of **children's rights**, which is part of a key priority of the Opinion, with policies in place but implementation remaining slow and largely reliant on external assistance. In April 2012 the action plan of the national strategy for child protection 2012-2015 was approved, and implementing measures for the Law on the Protection of the Rights of the Child were adopted. The signature of a joint order of the Ministers of Interior and Labour, Social Affairs and Equal Opportunities in August 2012 aims to increase coordination for effective management of cases of children at risk of abuse. There are currently 11 child rights units at regional level and 62 child protection units (CPUs) at municipal and commune level. A programme addressing corporal punishment and psychological violence in schools has been launched. The National Council for the Protection of the Rights of the Child has so far been convened once. There is systematic reliance on civil society organisations to provide child protection services at local level. Dependence on donors puts into question the sustainability of such structures and there is a need to ensure that decentralised management of policies is matched with adequate resources at local level. Coordination between central and local governmental structures needs strengthening. No progress was made regarding monitoring and support to children who leave residential childcare institutions at the age of 15. A Council of Ministers Decision approved in April 2012, aiming at increasing the number of children in foster care, provides for the State to cover the full costs of foster care for all eligible children from September 2012. The juvenile justice strategy and action plan have not been adopted. Over-use of pre-trial detention for juveniles is a serious concern, with a majority of juveniles spending their whole sentence in pre-trial detention. Introducing legal provisions on children under the age of criminal responsibility and on juvenile witnesses and victims of crime is needed. Internal trafficking in human beings, child begging and informal child labour remain issues of concern and need to be addressed consistently.

There has been limited progress in the implementation of policies targeting the **socially vulnerable and/or persons with disabilities**, which falls under the key priority on anti-discrimination. The inter-ministerial working group drafted and held consultations on a framework law on the rights of persons with disabilities but it has yet to be adopted. There

continues to be unequal access to rights due to the differentiated status of certain groups and the lack of official status for certain disabilities. Implementation of the national strategy on persons with disabilities continues to be inadequate and the quotas for employment stipulated by the Law on Employment Promotion are not enforced. The Law on the status of blind persons and the Law on the status of paraplegics and tetraplegic persons were amended in March 2012. Some associations of disabled persons have protested against the introduction of new criteria and procedures for disability benefits related to energy, public transport and telephone bills that were prompted by previous abuses of the scheme. The amendments to the Law on Social Assistance and Services led to the revision in February 2012 of the decision defining criteria, procedures and amounts of general social support payments, thus excluding persons with disabilities from benefiting at the same time from the economic aid and disability allowances. The Law on Pre-University Education adopted in June provides for assistant teachers in classes with children with disabilities. Until now, many children with disabilities have not been integrated into the public education system.

Moderate progress has been made regarding the implementation of **anti-discrimination policies**, which is part of a key priority of the Opinion. In April 2012, the Office of the Commissioner for Protection from Discrimination (CPD) launched a strategic plan for 2012-15 and an action plan for 2012. The CPD focused on capacity building and awareness-raising and was consulted on draft legislation. Public knowledge of the Law on Protection from Discrimination and awareness of the right to appeal to the CPD remain low. There remains under-reporting of potential cases of discrimination. In the reporting period, the CPD handled 41 cases, including 11 ex-officio investigations. The CPD imposed an administrative sanction in one case. There is a need to build a track record of cases brought to final completion to encourage potential victims to bring their cases to the Commissioner.

An inter-ministerial working group, with civil society participation, has drafted a plan of measures for non-discrimination on the basis of sexual orientation and gender identity 2012-2014. NGOs ran a training course on the rights of lesbian, gay, bisexual and transgender persons (LGBT) for the public administration. A diversity festival was organised by civil society and financed by donors, with presence of the State authorities, in Tirana on 17 May 2012, to mark the International Day against Homophobia and Transphobia. In the run-up to this event, derogatory homophobic statements were made by a member of government and a political party representative. The Prime Minister denounced these statements, and the Commissioner for Protection from Discrimination investigated the cases and issued recommendations. LGBT persons continue to suffer from discrimination and difficulty in accessing social and health services, notably for transgender persons.

Labour and trade unions rights have generally been respected. Dialogue has been launched with the trade unions on the criteria for membership of the National Labour Council. Trade unions reported that state institutions were unwilling to sign collective agreements in the public sector. Collective bargaining in the private sector remains underdeveloped. Gaps remain in the enforcement of legislation on child labour.

As regards reforming the legal and institutional framework in the area of **property rights**, a key priority of the Opinion, a new law has been approved on registration of immovable property, which reorganises the Immovable Property Registration Office (IPRO) as a self-financing institution and contains provisions on digitalisation of property registration. Amendments were made to the law on restitution and compensation for property, setting new criteria for land evaluation and extending the deadline for property restitution and compensation to 2014. A new Directorate for Coordination has been set up in the Ministry of Justice.

A cross-cutting strategy and action plan for reform of property rights was adopted, following technical discussions with the donor community and the presentation of the draft to some stakeholders. The strategy aims to complete initial registration and consolidate an electronic public register for properties, complete the processes of restitution, compensation and legalisation, create an efficient compensation scheme and a physical and financial fund for people whose property has been expropriated, contribute to fighting corruption in the sector, and modernise the information system on property rights. Legislation in force and future initiatives in this sector have to be fully coordinated with the objectives of the strategy. Territorial planning, institutional coordination and interrelations, and the setting up of efficient monitoring and implementation structures remain significant challenges in this respect. Broader consultations of stakeholders accompanied with determined action are needed to ensure sustainability in the implementation of the strategy.

The land registry has not yet been completed and land and property databases remain under the control of different agencies without sufficient coordination. Initial registration of immovable property needs to be completed to create certainty of ownership. Legal impediments must be removed to facilitate registration, giving owners clear and undisputed title to property. Compensation and restitution claims by former owners for property confiscated during the communist regime are met at a very slow rate. The Government has yet to communicate a clear timetable for enforcement of ECtHR judgements regarding property rights.

Respect for and protection of minorities, cultural rights

Inter-ethnic relations remained good overall, despite very limited progress in enhancing the legislative and policy framework for the protection of **minorities**. The Third Opinion of the Advisory Committee of the Framework Convention for the Protection of National Minorities (FCNM) was published on in June 2012. The Opinion recommends the adoption of a comprehensive legislation on minorities. This would help address identified legal gaps and the legal fragmentation in this sector and clarify state policy towards minorities, including establishing proper legal criteria for the recognition of minorities and ensuring effective access to rights for all minorities. The mandate and capacity of the State Committee for Minorities have not been reviewed.

The population and housing census, which included optional questions on ethnic origin and religious affiliation, took place in October 2011. The full results have not been published yet and it is important that the processing of data be carried out in accordance with EU standards. Insufficient clarity over the scope of application of fines for refusal to declare or false declarations included in the census law resulted in calls for boycott on the part of some minority organisations, which, according to preliminary data, were not widely followed. In December 2011, the Constitutional Court issued an explanatory report on its decision on unconstitutionality of the inclusion of ‘nationality’ (ethnicity) in the civil registry, focusing on the constitutional principles of non-obligation to declare ethnicity and of protection of sensitive personal data. This decision was criticized by representatives of the Greek minority who have called for full respect for the principle of self-identification. It remains to be seen how access to specific rights related to this civil registry entry will be guaranteed. Regarding **cultural rights**, public education in minority languages is still not available for all minority groups and Albania has not adopted the European Charter for regional and minority languages.

Very limited progress was made as regards **Roma** inclusion, which is part of a key priority of the Opinion. The government has approved administrative decisions to facilitate birth registration procedures; however, there continues to be insufficient coordination between

different institutions involved in the registration of births. Roma have benefited from the distribution of free textbooks for compulsory education but financial constraints lead to continued high rates of school drop-out and low enrolment of Roma children in pre-school education.

Implementation of the national strategy on improving Roma living conditions, the national action plan for the Roma Decade and the operational conclusions of the December 2011 seminar on inclusion of the Roma and Egyptian communities in the framework of Albania's EU integration continues to be very slow, due to inadequate resources and insufficient coordination of the institutions involved at local and central level. There is a need to upgrade the status of the Roma Technical Secretariat to enhance its capacity to effectively enforce and coordinate implementation of policies. Technical working groups on Roma are established in 10 regions to monitor, evaluate and make plans to improve Roma living conditions. However, local government units are still insufficiently involved and aware, with critical services for Roma still being largely provided by civil society organisations and financed by international donors, which may put into question their sustainability in the medium term.

The Roma still face very difficult living conditions and frequent discrimination, particularly regarding access to employment and adequate housing, leading to marginalisation. Despite much attention from the international community, civil society and the Ombudsman and some limited efforts by the government, the response of the central and local authorities' towards relocating and assisting the remaining Roma families from those forcibly removed from their settlement near Tirana train station in February 2011 has been largely inadequate. Preparations for infrastructure projects are heightening the risk of such evictions. Central and local governments need to develop intervention plans to address forced evictions and ensure alternative housing for families in vulnerable situations.

Overall, there has been moderate progress in the field of human rights and the protection of minorities.

There has been progress towards meeting the key priority that calls for improving the treatment of detainees, for strengthening the judicial follow-up of cases of ill-treatment and application of the Ombudsman's recommendations. Measures have been taken to improve conditions of detention and strengthen cooperation with the Ombudsman. Some cases of ill-treatment are still reported and police do not systematically follow proper procedures for arrest and custody. Living standards in prisons still vary. There are plans for establishing a special medical institution for mentally ill detainees, but the need for additional specialised care and improving treatment remains. Delays in court proceedings and the as yet insufficient resources of the Probation Service continue to lead to over-use of pre-trial detention.

Progress towards meeting the key priority that calls for reinforcing the protection of human rights notably for women, children and Roma and effective implementation of anti-discrimination policies has been uneven. Amendments to the Criminal Code on domestic violence are a positive step. Implementation of policies for child protection needs to be strengthened. There is a need to adopt legislative measures for persons with disabilities and to review legislation in view of addressing potentially discriminatory provisions against LGBT persons. The Commissioner for Protection from Discrimination has worked on raising awareness but additional efforts are needed to establish a track record of cases brought to final completion. There is still discrimination against certain vulnerable groups, such as LGBT persons and Roma. Inter-ethnic relations remain good but no measures have been taken to address weaknesses in the overall legislative and institutional framework in the field of minorities. Implementation of policy tools for Roma inclusion and access of this community to social protection and services are still insufficient, leading to marginalisation. Policies in

the field of human rights are largely supported by civil society and donors. It is important for Albania to prioritise policies in these areas in order to ensure sustainability.

Some progress was achieved in the area of property rights, notably through the adoption of a new law on the registration of immovable property and through the adoption of a cross-cutting strategy and action plan for reform in the field of property rights, a key priority of the Opinion. Efficient coordination and monitoring is necessary to ensure the implementation of the strategy and consistency between legislation in force and future initiatives. Consultations with stakeholders need to continue in this respect. The first registration of properties has not yet been completed. Compensation and restitution claims by former owners are met at a very slow rate.

2.3. Regional issues and international obligations

The Council of Europe (CoE) has continued to monitor the extent to which Albania is fulfilling its membership obligations and has closely followed political developments in the country through specialised CoE bodies and through its permanent external office in Tirana, headed by a special representative of the Secretary General. In May 2012, Albania took over the chairmanship of the Committee of Ministers of the Council of Europe.

Albania has cooperated fully with EULEX to allow full investigation of allegations raised in the resolution adopted by the Parliamentary Assembly of the Council of Europe. In May 2012, parliament unanimously adopted a special law allowing EULEX investigators to carry out investigations on Albanian territory.

Albania maintains a 2003 bilateral immunity agreement with the United States granting exemptions from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Position on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Albania needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of Albania's process of moving towards the European Union. Albania continued to take an active part in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Energy Community Treaty and the European Common Aviation Area Agreement. Albania holds the chairmanship of the Central European Free Trade Agreement (CEFTA) in 2012 and the chairmanship of the Multinational Advisory Group of the RACVIAC-Centre for Security Cooperation. As a result of an initiative launched by Albania in the framework of its MARRI (the Migration, Asylum, Refugees Regional Initiative) presidency, an agreement entered into force between Albania, Montenegro and the former Yugoslav Republic of Macedonia to ease border crossing procedures between the countries. Nationals of these countries are now able to travel between them with biometric identity cards for a period of up to three months.

Albania continued to act as a constructive partner in the region, further developing **bilateral relations with other enlargement countries and neighbouring EU Member States**.

Relations with *Bosnia and Herzegovina* remained good. A bilateral agreement allowing travel for respective citizens with biometric ID cards only is under preparation.

Relations with *the former Yugoslav Republic of Macedonia* continued to develop, with the entry into force of agreements on travel by citizens between the two countries and on cooperation as part of the EU accession process. An agreement was signed on setting up a joint centre for the exchange of information between their respective border and migration police corps.

Cooperation intensified with *Montenegro* in economic and trade relations. The two countries initialled an agreement on cooperation in education and signed an agreement on recovery of Albania's debt to Montenegro, an agreement on opening a joint border crossing point and a cooperation plan on defence.

Relations with *Serbia* remained good. Several high-profile bilateral meetings took place. An agreement on veterinary co-operation was signed in April 2012. A readmission agreement and an agreement on reciprocal movement of citizens were also signed.

Albania continued its very good relations with *Kosovo*, with which it signed protocols on border police cooperation, including joint patrolling.

Albania continues to have good relations with *Croatia* and with *Turkey*.

Relations with neighbouring EU Member States *Greece* and *Italy* remained very good. Regarding the maritime border agreement with Greece, there are no developments to report.

Overall, Albania continued to play a constructive role in contributing to the stability of the region. Albania continued to implement the Stabilisation and Association Process conditions in this regard.

3. ECONOMIC CRITERIA

In examining 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.

3.1. The existence of a functioning market economy

Economic policy essentials

Despite a generally polarised political landscape, the main parties agree on the key essentials of a market economy. Nevertheless, the political situation renders the adoption and implementation of structural reforms more challenging. The government's main economic policy objective is still to preserve macroeconomic stability, which was broadly maintained. However, the increase in the fiscal deficit in 2011 led to a further rise in the relatively high public debt, aggravating Albania's macro-financial vulnerability. Progress on structural reform remains insufficient. In particular, the privatisation programme has practically stalled and the institutional set-up to protect property rights and enforce the rule of law is weak. Albania submitted its sixth Economic and Fiscal Programme, covering the period 2012-2014, in February 2012. The programme presents an optimistic medium-term macroeconomic scenario. The treatment of risks to the budgetary outlook and the structural obstacles is still insufficient. *Overall*, the consensus on the main fundamentals of a market-oriented economy was maintained.

Macroeconomic stability

According to provisional data, economic growth decelerated to 3.1% in 2011 from 3.8% a year earlier. Domestic demand was the main driver of GDP growth, spurred by gross fixed capital formation, which rose by 3.6%. Private consumption growth slowed down to 2.6%, suppressed by weak lending to households and a further decline in workers' remittances. The contribution made by net exports to GDP growth was negligible. The Albanian economy contracted by 0.2% year on year in the first quarter of 2012, driven by strong declines in industry and construction output, partly due to adverse weather conditions. As a result, electricity output declined leading to disruptions in the extractive sector. Agriculture and other

services output increased. Consumption expenditure and investment remain weak partly reflecting the uncertain global economic situation. Per capita GDP in terms of purchasing power parity was estimated at 31% of the EU-27 average in 2011, up from 28% in 2010. *Overall*, the Albanian economy continued to grow in 2011, driven by domestic demand, but economic activity practically stagnated in the first quarter of 2012.

The annual inflation rate averaged 3.5% in 2011 and remained within the Bank of Albania's (BoA) target range of 2-4%. The main contributors to inflation were international food and fuel prices. Lower prices for imported food and the unwinding of base effects led to a deceleration of inflation in 2012, which reached a low of 0.6% in February. Inflation accelerated in the subsequent months, reaching 2.8% in August. The supervisory council of the BoA cut the key repo rate in five equal steps, starting from September 2011, by a total of 125 basis points to a multi-year low of 4%.

Notwithstanding several measures adopted by the monetary authorities, the level of euroisation in Albania remains high. Foreign-denominated loans stood at 68% of the total credit outstanding in 2011, of which more than half consist of un-hedged loans, while foreign currency-denominated deposits account for 50%. Such high euroisation constrains the room for manoeuvre of monetary policy and could be a potential source of instability in the financial system, since it could expose banks to currency mismatches or indirect credit risks.

Albania continued to pursue a free-floating foreign exchange rate system. The lek was more stable in 2011, compared with the previous year, depreciating by some 2% against the euro. During the first eight months of 2012, the Albanian currency appreciated marginally reaching 1.8% year on year in August. *Overall*, monetary policy remained sound, inflation kept within the target range and exchange rate stability was broadly preserved.

Labour market conditions improved somewhat during 2011, but unemployment remained high at 13.3%, down slightly from 13.7% in 2010. Employment grew on the back of private non-agriculture job creation. In the first half of 2012, employment continued growing although at a decelerating rate of some 1%. Unemployment remains persistently high, while long-term unemployment accounts for around three quarters of total jobseekers, reflecting its structural nature. Labour market statistics continue to be weak and are distorted by the large informal sector. *Overall*, labour market outcomes slightly improved. Although lower, unemployment remains persistently high.

The current account deficit widened to 12.2% of GDP in 2011, from 11.3% a year earlier, primarily reflecting a higher trade gap and a lower services account surplus. The large trade deficit increased to 23.8% of GDP in 2011, from 23% in 2010, due to a slowdown in exports and an increase in imports. Unfavourable weather conditions in the second half of 2011 dented Albania's hydropower generation which resulted in a switch from exporting to importing electricity and disruptions in the extraction industries that lasted until the first quarter of 2012. The current account imbalance improved in the first half of 2012 as electricity output recovered in April and exports of goods turned positive which, together with a drop in imports, led to a lower trade gap. In addition, the services account posted a surplus in the first half of 2012 helped mainly by strong inbound tourism which more than offset a decline in remittances.

During 2011, net FDI inflows declined by 10%, reflecting the volatile global economic conditions, difficulties in neighbouring economies and the repatriation of capital which coincided with the fragile political climate in the country in the beginning of the year. As a result, FDI inflows covered some 65% of the current account imbalance, down from 78% in the previous year. Net FDI increased by some 30% in the first half of 2012, partly reflecting a favourable base effect caused by depressed inward investment figures in the corresponding

period of the previous year. Higher FDI was reported in the oil extraction and banking sectors, the latter linked to bank recapitalisations. Although declining since 2010, Albania preserved a relatively comfortable level of international reserves at around 4.4 months of imports. *Overall*, the high current account deficit remains a source of vulnerability, especially in view of the potential adverse impact of the volatile global and regional economic situation on FDI and declining workers' remittances.

The government deficit increased from 3.1% of GDP in 2010 to 3.5% in 2011, as planned, although only after a mid-year budget re-balance. Total revenue growth decelerated to 1.8% and stood at 25.1% of GDP, reflecting a lower tax yield amid weak consumer expenditure and a sharp fall in non-tax receipts. Following a contraction in 2010, total expenditure increased by 3.7% to 28.6% of GDP in 2011 as a result of higher capital outlays and social transfers. The 2012 budget envisages a fiscal deficit of 3% of GDP, based on an assumed real GDP growth of 4.3%. In the period January-July 2012, total government revenue increased by 4%, compared with the same period of the previous year, but was 5.4% lower than planned, partly reflecting optimistic projections. Expenditure was broadly in line with plans, although payment arrears are a cause for concern. In July 2012, the government adopted the 2013-15 medium-term budget programme (MTBP) based on a downward-revised GDP growth rate of 3% for 2012. The MTBP aims at maintaining total public debt at 60% of GDP and net borrowing not exceeding 3% of GDP in 2012. Domestic borrowing remains the primary source of deficit financing. *Overall*, the budgetary framework remains weak at the planning stage, reflecting optimistic revenue projections, and also at the execution stage.

The public debt increased from 58.5% in 2010 to 58.8% in 2011, including 3.7% of GDP in government guaranteed debt. In the first half of 2012, public debt continued to increase, reaching 59.4% of GDP. Albania's relatively high and increasing public debt continues to show a short-term bias (50% of the debt has a maturity of one year or less) which requires frequent re-financing, although some three fifths of the debt is domestic. However, the bulk of the domestic debt is held by banks, which poses a risk if banks decide to reduce their exposure to government debt as a way to adjust their balance sheets. Any increase in interest rates would further limit the fiscal space. At such a high level, public debt remains a source of macro-financial vulnerability. *Overall*, the relatively high and increasing government debt remains a cause for concern. Further budgetary consolidation is needed to address this source of macro-financial vulnerability.

Some progress was made on improving the tax administration. The fiscal amnesty scheme, which aims to regularise undeclared assets and income, was introduced during the second half of 2011 and extended until the end of August 2012. Based on the preliminary results published in February, some €10.7 million (0.1% of GDP) were collected as a result of the scheme. For the first time, the tax administration introduced an income declaration for taxpayers to file with the tax offices within 2012. The Laws on Excise was further aligned with the *acquis* while preparations for aligning the Law on VAT are advanced. The reference wages introduced in 2007 as a measure to reduce tax evasion will be removed while the frequency of profit tax payments by businesses has been reduced from a monthly to a quarterly basis. Despite these efforts, gaps remain in both revenue collection and administrative capacity. A fully-fledged tax compliance system is still lacking and enforcement continues to be weak, as does revenue collection at both central and, especially, local government levels. Some improvement was achieved in the VAT refund procedure during the first half of 2012; however, delays persist, putting an additional burden on businesses. *Overall*, some progress in the tax administration was achieved, but structural deficiencies remain.

Overall, macroeconomic stability has been maintained, as Albania was less affected by adverse external economic conditions. Monetary policy has successfully helped to keep inflation stable and anchor inflationary expectations. The high level of euroisation continues to limit the effectiveness of the monetary transmission channels. The relatively high and rising government debt limits the fiscal space and remains a source of macro-financial vulnerability. Essential structural reforms are still missing.

Interplay of market forces

According to official data, the private sector continues to account for 80% of GDP and employs about 82% of the labour force. No major privatisation took place during 2011. A law authorising the privatisation of Albpetrol — a state-owned oil company - was adopted by parliament in December, while a bidding deadline was fixed for September 2012. Preparations for the privatisation of the remaining state-owned shares of Albtelecom (16.75%) have started, although the bidding deadline was postponed to December. Privatisation of INSIG, a state insurance company, remains an objective for 2012, together with that of three hydropower plants owned by KESH, the state-owned electricity generation company. Regulated prices are estimated to account for 8% of the consumer price index (CPI). Some progress was achieved in the form of the adoption of a new water fee structure that, amongst other things, aims to align the tariff structure to ensure cost recovery. *Overall*, state involvement in the economy remains limited and mainly concentrated on energy, transport and water supply.

Market entry and exit

Business registration and licensing continued to perform well through the established network of one-stop shops. Some improvements were made in the business registration system by implementing the electronic commercial register for mergers and acquisitions and for the division and transformation of companies. A further reduction was recorded in the time and steps needed to start a business. E-procurement and e-tax filing are already in place and functioning. However, the procedure for granting building permits remains lengthy, delaying the revival of the ailing construction sector. The reform of inspectorates dealing with business and economic activities is at an early stage. No progress was made in the field of e-signature and no particular development can be reported towards implementation of the amended Law on Protection of Foreign Investors regarding property ownership.

No progress was made on reducing the timing and procedures for market exit, which remain slow. During 2011, about 3,900 requests for voluntary business closures were filed with the National Registration Centre (NRC). The structure of the Bankruptcy Supervisory Agency was approved in January 2012. The Agency's performance remains to be assessed.

Overall, Albania has made good progress on facilitating business entry into the market. The procedures for market exit remain slow and ineffective.

Legal system

The national strategy and action plan on property rights was adopted in June. Little progress was made in the fields of land registration and of restitution of property to former owners. The process of initial registration of immovable property has not yet been completed. *Overall*, the lack of secure property rights and the weak institutions remain causes for concern and further efforts are required to address these issues.

Businesses still face delays in court procedures and the perception of widespread corruption in the justice system persists. Some improvement was achieved in collateral execution with the introduction of a private bailiff's office. However, weak contract enforcement and execution of collateral remain major obstacles for businesses. Informal methods of contract

enforcement, by-passing the legal system, are still widespread. The Law on the Establishment of Administrative Courts was adopted in parliament in May 2012. *Overall*, weaknesses in rule of law, incomplete reform of property ownership and corruption are continuing to have an adverse effect on the business environment.

Financial sector development

The financial system remains dominated by the banking sector, which accounts for 85% of GDP and comprises 16 commercial banks, which are all privately owned. The share of foreign ownership stands at some 90% of total assets. Despite the banks' dominance, the share of bank lending stood at around 43% of GDP, suggesting that there is significant scope for stronger financial intermediation. Credit growth increased by 11.7% in 2011, up from 8.6% a year earlier. During 2012, lending growth decelerated to 7% year on year by July. Outstanding loans to non-financial corporations, which account for the highest share of total bank loans, grew by 15.4% year on year in December 2011 but decelerated in the first half of 2012, reaching 9.7% in July. Lending to households was weaker during 2011, shrinking at an increasing rate in the first seven months of 2012, mainly on account of lower foreign currency credit. The growth in the stock of lek-denominated credit outpaced that of foreign currency lending during 2011. This trend continued through July 2012, reflecting both moderate demand for credit as well as more conservative lending policies by banks. Still, around 68% of the total credit outstanding is in foreign currency, of which more than half consists of un-hedged loans, suggesting that the banking system remains vulnerable in the event of unfavourable exchange rate movements. Deposit growth decelerated to 14.5% in 2011, from 15.5% a year earlier, and slowed down further to 10.6% year on year by July 2012. The banking sector's share of external borrowing in total liabilities followed an upward trend during 2011, increasing from 4.9% in December 2010 to 6.8% at the end of 2011, and then stabilised at 7% in the first half of 2012.

In general, the Albanian banking system remained capitalised and liquid. Following a decline in the first half of 2011, the capital adequacy ratio was restored to 15.6% by the end of the year, well above the minimum required. Nevertheless, non-performing loans continued to rise during 2011 and stood at 21.21% of total loans in June 2012. In response, the banking sector raised provisions from 10.8% of total loans at the end of 2011 to 12.2% in the second quarter of 2012 which, in turn, had an adverse impact on profitability. The process of execution of collateral has been slow, partly reflecting a weak judicial process, delaying the cleaning-up of banks' balance sheets.

Several precautionary steps to strengthen the stability of the banking sector were adopted in 2011. The Law on Banks was amended in November 2011, giving the BoA new powers to ask branches of foreign-owned banks to convert into subsidiaries. In June 2012, the BoA adopted regulations on the creation of the 'bridge bank' facilitating a resolution in the event that a bank runs into difficulties. Furthermore, the regulatory and supervisory framework has been enhanced by means of more conservative regulatory limits, differentiated by currency, on banks' liquidity indicators and guidelines on the obligations of the commercial banks to meet the minimum reserve requirements. Parliament adopted some amendments to the law on deposit insurance in July 2012. *Overall*, the banking sector remains well-capitalised and liquid. However, the high level of non-performing loans is a cause for concern.

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

Existence of a functioning market economy

Macroeconomic stability was maintained, as Albania was less affected by adverse regional and global economic conditions. Although positive, GDP growth decelerated and remained below historical averages. Despite slightly higher employment, structural imbalances in the labour market and the current account remain high. The government deficit worsened amid weak revenue and higher expenditure and, as a result, public debt increased. The relatively high level of public debt combined with its short-term structure remains a source of macro-fiscal vulnerability. The planned privatisation programme stalled. Some reforms to facilitate market entry were introduced, but efforts to ensure an orderly market exit for businesses slowed. Weaknesses remain in the rule of law, particularly in contract enforcement and property rights. *Overall*, although some progress was made on establishing a functioning market economy, Albania needs to consolidate its public finances and reduce the relatively high public debt, further bolster governance, enhance labour market performance, provide protection for property rights and strengthen the rule of law.

Human and physical capital

Public expenditure on education is estimated to have reached 3% of GDP in 2011, while the budget allocation planned for 2012 is slightly lower at 2.8%. Spending on education will aim to improve the overall quality of service delivery at all levels, with particular focus on achieving the OECD standards on the teacher/student ratio, adding 400 teachers and increasing the number of science laboratories. A campaign to modernise textbooks and syllabuses to bring them more into line with labour market needs has been started. No developments can be reported with regard to increasing public spending on research and development (R&D). The budget for R&D remains quite low, at 0.04% of GDP in 2012, similar to that allocated in 2011. There is a lack of scientific research institutions and collaboration between universities and industry on R&D is weak. The 'brain gain' system of bonuses given to employees of the public administration who graduated abroad restarted in 2012 after being suspended in 2011.

According to provisional official data, investment stood at 33.1% of GDP in 2011, slightly lower than in 2010. Public capital outlays are estimated to have reached 6.2% of GDP in 2011 and are expected to be slightly lower in 2012 at 5.8%. Health, education, infrastructure and agriculture remain priority areas within public investment. However, the main public investments (about 55% of total public investment) are concentrated on road infrastructure. Insufficient road maintenance and illegal construction along roads remain causes for concern. Rail transport remains underdeveloped. Further investment in infrastructure is needed in order to attract investors and stimulate tourism. Albania's electricity generation remains vulnerable due to an over-reliance on hydropower plants. Unfavourable weather conditions seriously dented electricity output, which fell by 48% in 2011. To avoid load shedding, electricity was imported, which had a negative impact on economic growth and the trade balance. In addition, the electricity system needs significant investment to reach the requirements related to security of supply. An unreliable supply of electricity is an obstacle for businesses, as it disrupts production and pushes up costs. In an effort to improve generation capacity to meet demand, the government continued to issue concession permits in 2011 for construction of new hydropower plants. Nevertheless, the number of concessions that are operational remains low, reflecting mainly a weak legal framework. Private plant operators generate only 2% of the total supply. *Overall*, higher levels of investment are needed to make the Albanian economy competitive on regional and international markets. Redirecting more expenditure

towards growth-promoting categories, such as human capital and productive physical infrastructure, including the supply of electricity, would boost long-term growth.

Sectoral and enterprise structure

The relative shares of agriculture, industry and services in gross value added (GVA) broadly unchanged in 2011 from the previous year. Services remain the main contributor to Albania's gross value added GVA at roughly 60%, with trade, hotels and restaurants accounting for the bulk of this sector. Agriculture's share in GVA increased to some 21% at the expense of construction which fell to slightly less than 11%. The decline in manufacturing's share in GVA was offset by higher gross value added from the extractive industries. Agriculture remains the largest employer with 54% of total employment in the first half of 2012. Inward processing performed well during 2011 but energy production contracted.

Albania's manufacturing base remains concentrated around three main sub-sectors which accounted for some 83% of total exports of goods in 2011 and which are either dominated by low value-added products or vulnerable to fluctuations in global commodity prices: textiles and footwear (32%), minerals, fuel and electricity (30%) and building materials (21%).

Weak tax and expenditure policies and poor law enforcement, including in the fight against corruption, have been fuelling a sizeable informal sector. Some steps were taken during the year to address informality, including the extension of use of fiscal devices (cash registers) across the country. However, implementation remains a challenge to the administration. The informal economy continues to impede fair competition on the market, and strengthening law enforcement remains a government priority. SMEs continued to benefit from credit support schemes and the European Fund for South-East Europe (EFSE). *Overall*, the structure of the economy remained unchanged. While some measures were taken to combat the sizeable shadow economy, informality remains a challenge. Albania's production base lacks diversification in terms of both sectors and export markets, leaving the economy vulnerable to industry-specific shocks.

State influence on competitiveness

Subsidies remained almost unchanged compared with the previous year, at 0.3% of GDP in 2011. For 2012, the budget projects a decline in subsidies to €11.4 million or about 0.1% of GDP. Subsidies are granted to a limited number of sectors, namely railways, energy and water supply as well as horizontal State aid schemes. Financial viability of the electricity sector remains elusive as losses in the electricity network and distribution deteriorated further in 2011, bill collection rates continued to decline, while tariffs are still below cost-recovery putting undue pressure on public finances. The cost of importing electricity to compensate for the fall in electricity output was not transferred to end-users, prompting the government to provide an additional €14.2 million in loan guarantees in January 2012 to KESH. KESH's finances remain exposed to the outcome of a netting-off agreement reached in March 2012 with CEZ, the power distribution company. This agreement is part of the implementation of the protocol on partial financial settlement of outstanding mutual debts signed by the Albanian authorities, CEZ and the Energy Community Secretariat (ECS) in November 2011. It has not yet been fully implemented and the dispute between KESH and CEZ over outstanding mutual debts remains unsolved. *Overall*, state intervention remains limited. However, the impact on the public finances of the lack of diversification and full financial viability of the electricity sector and its high reliance on climate conditions remains a concern.

Economic integration with the EU

The openness of the Albanian economy continued to increase in 2011. Trade in goods and services stood at almost 90% of GDP in 2011, up from 86% a year earlier. Despite a decline

in 2011, the EU remains Albania's main trading partner. Around 80% of Albania's total foreign sales of goods are directed to the EU, with textiles and footwear accounting for more than half of total exports. Around 65% of goods imports originate from the EU. Despite the uncertain economic conditions in some EU Member States, exports to the EU increased by roughly 8.5% year on year in the January-July period. A significant increase in both exports and imports to and from CEFTA countries was recorded in 2011. During 2011, trade in goods with CEFTA grew by roughly 33%, accounting for 17.2% of total exports and 13.5% of total imports. The EU also remains the main source of inward investment in Albania, although its share in total FDI stock has declined in the last four years.

Following a period of heightened price competitiveness pressures, the real effective exchange rate (REER) fell significantly in 2010, mainly due to the depreciation of the lek in nominal effective terms. The REER remained generally stable during 2011 and in the early months of 2012. Cost competitiveness has also improved since 2010, with estimates pointing to a sharp deceleration in unit labour costs helped by higher productivity growth. *Overall*, the EU remained Albania's leading trading and investment partner. Trade with CEFTA countries increased.

4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

This section examines Albania's ability to take on the obligations of membership – that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses Albania's administrative capacity to implement the *acquis*. The analysis is structured according to the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers the progress achieved during the reporting period, and summarises the country's overall level of preparedness.

4.1. Chapter 1: Free movement of goods

No progress was made in the area of **general principles**.

Albania has made overall progress as regards **horizontal measures**, particularly in the fields of standardisation and conformity assessment.

There was good progress on *standardisation*. The General-Directorate for Standardisation (GDS) continued to work towards fulfilling the conditions for applying for full membership of the European Committee for Standardization (CEN) and of the European Committee for Electrotechnical Standardization (CENELEC) in 2012. The Managing Board for Standardisation adopted internal regulations in line with CEN and CENELEC membership principles. Progress towards adopting European standards (ENs) continued. The GDS has adopted about 95.5% of ENs as Albanian standards, including all harmonised ENs. The number of standards translated remains low, as most ENs are adopted by the 'cover page' method. Standards of the European Telecommunications Standards Institute are not yet adopted at national level. The code on development, adoption, approval and implementation of standards was approved and a working group on adoption of the national standards on oil and petrol was established. However, no progress can be reported on the preparation of the national strategy on standardisation.

There has been progress on *conformity assessment*. The December 2011 Law on the Marketing and Market Surveillance of Non-Food Products aims at further approximation to the *acquis*. Yet, its alignment with the *acquis* still needs to be assessed.

Some progress can be reported in the field of *accreditation*. The total number of accredited conformity assessment bodies increased to 21. In November 2011, the General-Directorate for Accreditation (GDA) became an associate member of European co-operation for

Accreditation. Preparations for applying for full membership are underway. The GDA supported the organisation of proficiency testing in the fields of construction materials and water quality. It established four technical committees: on testing and calibration laboratories, on inspection bodies, on accreditation of medical devices, and on certification bodies of environmental management systems and environment auditors. However, no progress was made on aligning the Law on Accreditation with the 2008 horizontal *acquis*.

There was some progress on *metrology*. The General-Directorate for Metrology (GDM) was reinforced with 10 additional technical staff. Its laboratory capacity was increased and its areas of measurement were extended. Work on the new premises of the National Metrology Centre in Tirana is nearing completion. The European Association of National Metrology Institutes gave a positive assessment to the quality management system of the GDM. Yet, little progress was made on approximating the Law on Metrology and its implementing legislation to the *acquis*. Alignment with the Directives on non-automatic weighing instruments and on measuring instruments is still pending. The draft communication strategy in the field of metrology is awaiting adoption.

There was progress in the area of *market surveillance*. The December 2011 Law on the Marketing and Market Surveillance of Non-Food Products aims at further approximating the Albanian legislation to the *acquis*. However, the planned market surveillance inspectorate has not yet been established.

There was limited progress in the **‘Old Approach’ product legislation**. The government adopted a technical regulation on the labelling of detergents and some regulations on pharmaceuticals.

Some progress has been made in the **‘New and Global Approach’ product legislation**. Technical regulations were adopted in the field of noise emissions from outdoors equipment aiming at bringing the legislation closer to the *acquis*.

There was no progress in the area of **procedural measures**. Legislation drafted with the aim of alignment with the *acquis* on the return of cultural objects has not yet been adopted. There were no developments in legislative alignment on civil firearms.

Conclusion

There has been progress in the area of free movement of goods, notably as regards standardisation. Further efforts are needed on overall legislative approximation and on establishing an adequate market surveillance inspectorate. Overall, preparations are moderately advanced.

4.2. Chapter 2: Freedom of movement for workers

There has been no progress in **access to the labour market**. Amendments to the Law on Foreigners, aiming to grant EU citizens access to the Albanian labour market without any obligation to hold a work permit, are awaiting adoption.

Some progress was made in the preparations for participation in the **EURES** (European Employment Services) network. The National Employment Service has launched a programme to computerise all employment offices, including the creation of job-seekers and employers databases, with the aim of making the system compatible with the EURES network standards.

There has been little progress as regards **coordination of social security systems**. A bilateral agreement on social security with Belgium has been signed. Negotiations with Hungary and the former Yugoslav Republic of Macedonia have continued and negotiations with the Czech Republic and Romania have started.

There were no developments as regards the **European Health Insurance Card**.

Conclusion

There has been little progress in the area of freedom of movement for workers. Some preparations have been made for future participation in EURES and coordination of social security systems. However, further efforts are required to align the legislation on access to the labour market with the *acquis*. Overall, preparations in this area are not very advanced.

4.3. Chapter 3: Right of establishment and freedom to provide services

There has been no further progress in the area of **right of establishment**. Preparations for simplification of procedures and reduction of construction permits process are at an early stage.

Progress in the area of **freedom to provide cross-border services** was limited to preparation of an action plan for alignment with the Services Directive. No progress was made towards approving the institutional framework and developing adequate administrative capacity within the relevant institutions.

In the field of **postal services**, no progress was made with approval of the national postal strategy or with definition of tariffs and weights for reserved services for the public postal operator. There is also no separation of regulatory functions from policy-making and exercise of the ownership control in the postal sector. The new organisational structure of the Electronic and Postal Communications Authority (EPCA) is pending adoption by the Albanian parliament.

There has been some progress towards **mutual recognition of professional qualifications**. Preparations for regulating the professional order of engineers and architects are advanced. Legislation implementing the Law on Regulated Professions was approved in autumn 2011, with the aim of regulating the procedures for the state examinations for local professionals. Processing of applications for academic and professional recognition of diplomas awarded by a relevant foreign body has been shortened. Preparations to introduce an on-line application for such recognition are advanced.

Conclusion

There has been some progress in the area of establishment and freedom to provide services, particularly towards mutual recognition of professional qualifications. However, preparations for alignment with the Services Directive are still at an early stage. Further efforts are required for alignment of the postal legislation with the *acquis*. Overall, preparations are moderately advanced.

4.4. Chapter 4: Free movement of capital

In the field of **capital movement and payments**, no further progress can be reported. Albania has relatively liberal rules in place on investment; however, restrictions on acquisition of real estate by foreigners remain in place. Further efforts are required to strengthen inter-institutional coordination to promote and enforce the Law on Foreign Investment in practice.

There has been little progress on approximation of legislation in the area of **payment systems**. The adoption of the Law on Payment Systems by the parliament is still pending. Progress has been made on improving the banking legislation. The Law on Banks was amended in November 2011, with the aim of reflecting developments on the financial market and managing the systemic risks. These amendments removed the exclusivity over electronic payment from banks, allowing other payment institutions to exercise this activity. They also

gave banks the right to open branches and agencies in and outside Albania and to offer cross-border payments.

As regards electronic payments, the volume settled through the Albanian Interbank Payment System (AIPS) decreased compared with 2010, but the volume and value of transactions increased, especially in the first seven months of 2012. Both the volume of payments and the value of transactions cleared through the Albanian Electronic Clearing House (AECH) increased. However, the Albanian economy is still largely cash-based.

There has been progress in the **fight against money-laundering**. Amendments to the Criminal Code were adopted in March, reflecting the recommendations of the MONEYVAL Committee. The new legislation establishes the autonomy of money-laundering crime from the predicate offence. Amendments to the Law on Prevention of Money Laundering and Terrorist Financing were adopted in June, with the aim at improving the control of suspicious bank transactions inside and outside the country. Albania also adopted a number of guidelines and sublegal acts regarding money-laundering. Electronic reporting was improved through training organised by the General-Directorate for the Prevention of Money-Laundering. The relevant modules were expanded with capabilities to guarantee data integrity, which is important for accomplishment of the core function of the Financial Intelligence Unit.

There was a significant increase in reports of suspicious transactions, from 211 in 2010 to 383 in 2011. During the reporting period, there were 271 reports of suspicious transactions. Exchange offices, accountants and the Central Office for the Registration of Immovable Property submitted reports of suspicious transaction for the first time in 2011. The number of assets investigations rose, followed by an increase in the number of cases sent to court for sequestration purposes and of seizures upon court order. However, the number of convictions for money-laundering remains very low. (*See also Chapter 24 - Justice, freedom and security*)

Conclusion

There has been progress as regards legislative measures in the area of free movement of capital with the adoption of amendments to the Criminal Code, the Law on Banks and the Law on Prevention of Money Laundering and Terrorist Financing. Further efforts are needed towards approximation of the Law on Payment Systems with the *acquis*. Overall, preparations are moderately advanced.

4.5. Chapter 5: Public procurement

No progress can be reported as regards **general principles**.

Little progress was made in the area of **award of public contracts**. The proportion of direct contracts in relation to competitive negotiations decreased in 2011, but still remains high. Further efforts are needed, particularly on improving the transparency of terms of reference and selection procedures and ensuring publication of tender notices in real time. Albania has an advanced e-procurement system, but there is still room for improvement.

Provisions related to works and service concessions are not aligned with the *acquis*. Adoption of a new Law on Concessions is still pending and relevant preparations are lagging behind. Albania has no specific legislation on public-private partnerships.

The legislation implementing the Public Procurement Law has not been adopted yet. The administrative capacity of the Public Procurement Agency (PPA) was increased but still is not commensurate with its duties and the increasing number of complaints. In March, the Public Procurement Commission (PPC) was placed under the Prime Minister. The consequences for its operational independence need to be assessed.

A clear division of roles between the PPC, the PPA and the Public Procurement Advocate (PPAd) has not yet been established. This systemic problem has resulted in duplications of functions and in problems when it comes to addressing complaints and monitoring implementation of public procurement and concession contracts. The responsibility of the PPA for legislative initiatives is not always respected.

The PPA organised awareness-raising and training activities, mainly on competitive dialogue, framework agreements, subcontracting, centralised procurement, review measures and procedures, concessions and public-private partnership. A national training plan and a communication strategy in the field of public procurement were prepared in January 2012.

Some progress was made in the field of **remedies**. The Regulation on the organisation and functioning of the PPC was amended in February in order to avoid conflicts of interest and to regulate the procedures for addressing claims on public action in accordance with the public procurement regulation.

Conclusion

There has been little progress in the area of public procurement, particularly as regards approximating the legislative framework on public procurement and concessions to the *acquis*. The division of responsibilities between all public procurement institutions remains poorly defined and further efforts are required to secure their administrative capacity and independence. Overall, preparations are moderately advanced.

4.6. Chapter 6: Company law

There was some progress in **company law**. Legislative alignment with the *acquis* regulating the minimum capital requirements for public limited liability companies advanced, with the adoption of the amendments to the Law on Entrepreneurs and Companies in October 2011. The Corporate Governance Code came into force in January 2012, subject to implementation by companies on a voluntary basis. Preparations for bringing the Albanian legislation into line with the *acquis* in the field of cross-border mergers are on track. Further efforts are needed as regards reporting and documentation requirements in the case of mergers and divisions.

No specific developments can be reported as regards the introduction of electronic signature. Further efforts are required to put in place the necessary technical infrastructure

Little progress was made in **corporate accounting**. In January 2012, amendments made to the International Accounting Standards and the International Financing Reporting Standards were adopted as national standards by the National Accounting Council of Albania (NACA). However, no progress can be reported with alignment with the Fourth and Seventh Company Law Directives. No progress was made on increasing the capacity of the NACA.

There was little progress in the field of **auditing**. Regulations on investigation and discipline and on quality control of statutory auditors have been adopted, but the overall legislation has not yet been fully aligned with the *acquis*. Further efforts are required to strengthen the human and financial resources of the Public Oversight Board (POB) and to guarantee its independence.

Conclusion

There has been some progress in company law. Albania approved the Corporate Governance Code, further aligning its legislation with the *acquis*. Further legislative efforts are needed on reporting and documentation requirements in case of mergers and divisions and on corporate accounting and auditing. Overall, preparations are moderately advanced.

4.7. Chapter 7: Intellectual property law

No progress was made on alignment with the *acquis* in the area of **copyright and neighbouring rights**. The new Law on Copyright has not yet been adopted.

Little progress can be reported in the field of **industrial property rights**. In September 2011, the Patent Regulation was amended with the aim of unifying some national procedures with procedures of the European Patent Office and the Patent Law Treaty.

There has been limited progress with **enforcement**. In March 2012 Albania amended provisions of the Penal Code on infringement of industrial property rights, in compliance with the obligations set by the TRIPS Agreement. However, the amended Penal Code does not cover infringement of copyright. This falls under the new Law on Copyright which is awaiting adoption. The number of criminal proceedings brought to court against unauthorised users of artistic property increased. Yet, further efforts are required to ensure effective implementation of the national strategy for the enforcement of intellectual and industrial property rights (IPR), including on enhancing inter-institutional cooperation. In 2011 there was only one inter-ministerial meeting to monitor implementation of the strategy. A second meeting was held in May 2012.

In February 2012, the Albanian Competition Authority and the General-Directorate for Patents and Trademarks (GDPT) signed a Memorandum of Understanding (MoU) aiming at strengthening their cooperation in the field of IPR. The GDPT also signed a MoU with the Intellectual Property Office of Kosovo. The General-Directorate for Customs approved a manual on statistics on counterfeit products and some related standard notification forms.

The IT system of the GDPT was improved with new hardware and an upgraded version of the Industrial Property Administration System. Nevertheless, further efforts are required to improve the online services and increase the number of staff at GDPT.

The restructuring and strengthening of the Albanian Copyright Office (ACO) is still outstanding, pending adoption of the Law on Copyright. A market surveillance inspectorate covering IPR enforcement has not been established.

The ACO continued awareness-raising activities on copyright enforcement and provided training for judges from magistrates' schools and district courts. However, the level of understanding and awareness of copyright and related rights, and especially of collective management systems, remains low. The judiciary lacks appropriate experience and qualifications. Overall, major deficiencies remain, such as insufficient administrative capacity, low fines, insufficient public awareness and enforcement in general.

Conclusion

Progress has been limited in the field of intellectual property law. Substantial efforts are still required to address existing shortcomings in effective enforcement of intellectual and industrial property rights which impinge on Albania's commitments under the SAA. Overall, preparations are not very advanced.

4.8. Chapter 8: Competition policy

Progress has been made in the field of **anti-trust and mergers**. The adoption of the Regulation on agreements of minor importance in November brought the legislation closer to the *acquis*. The Albanian Competition Authority (ACA) adopted six decisions on anti-competitive agreements (cartels) and two on abuse of dominant positions. Ten proposed mergers were authorised without remedies. Moreover, the ACA issued three recommendations to other government institutions. The ACA issued a recommendation to the Electronic and Postal Communications Authority (EPCA) concerning a merger between two

telecommunications operators with EPCA's positive response. The ACA's recommendation to the Bank of Albania (BoA) to increase transparency regarding citizens' access to information on banks interest rates was accomplished through their on-line publication. The government has not yet followed the ACA's recommendation to establish a Bank Ombudsman.

The ACA concluded investigations into the bread market and security services and imposed fines for illegal price-fixing. After investigating the supply of fixed telephone services with prepaid cards, the ACA issued specific recommendations. It also initiated preliminary investigations into potential abuses of dominant market positions in a range of sectors: compulsory third-party motor insurance; international shipping services; loading and unloading of liquid petroleum gas; the sugar and rice import market; the vegetable oil production market; and the import, manufacturing and wholesale trading market of cement.

The ACA continued its advocacy and public-awareness activities. Some progress was made as regards the administrative capacity of the ACA. The total number of staff increased by one legal expert and recruitment of an IT and forensic expert is on-going, while two administrative posts were converted into technical posts, in accordance with the new structure of the ACA approved in January. Training helped to strengthen its investigative capacity.

Some progress was made in the field of **State aid**. The State Aid Commission (SAC) authorised four new State aid schemes, mainly related to promoting employment. Moreover, the SAC initiated an *ex-officio* investigation into a potential State aid scheme by the Ministry of Public Works and Transport on which it gave a negative opinion. The number of notifications remains very low, pointing to not all schemes being notified to the SAC before adoption, as required under the State Aid Law.

The regional State aid map has been adopted by SAC, based on the NUTS II division of the country and is in line with the *acquis*. Further efforts are required to complete a comprehensive review of the overall legal framework for State aid control to bring it into line with the *acquis*.

No progress was made as regards the administrative capacity of the State Aid Sector (SAS), which also serves as the SAC Secretariat. Its current number of staff (four) is completely inadequate. The operational independence of the SAC and the SAS has yet to be confirmed. The SAS conducted several training programmes for its staff and carried out an awareness-raising campaign.

Conclusion

Some progress can be reported in the area of competition. Legislative alignment with the *acquis* on anti-trust and merger control advanced and the regional State aid map was adopted. Further efforts are required to safeguard the administrative capacity and the operational independence of the State aid and competition authorities. Overall, preparations are on track.

4.9. Chapter 9: Financial services

Progress has been made in the area of **banks and financial conglomerates**. The Bank of Albania (BoA) adopted regulations aiming at partial alignment with the *acquis* on procedures for intervention in the domestic foreign exchange market; credit risk management, capital adequacy, liquidity risk management, and establishment, licencing and functioning of the bridge bank. In November 2011, the Law on Banks was amended further to approximate the legislation to the *acquis* (*See also Chapter 4 – Free movement of capital.*). Amendments to the Law on Deposit Insurance were adopted in July 2012. No progress was reported on establishment of a Banks Ombudsman, as recommended by the Albanian Competition Authority in 2011.

The Supervisory Department (SD) of the BoA continued revising the regulatory framework in accordance with the provisions of Basel II and with the aim of approximating the Albanian legislation to the *acquis* on the supervisory review process and disclosures. The SD is in the process of adopting the European Risk Assessment System (RAS). The new method covers all types of risks and is currently being tested in all its aspects. Due to restructuring, the staff of the SD has decreased from 49 employees last year to 43.

Little progress can be reported in the non-banking area. Implementing legislation on collective investment undertakings was adopted in October 2011. The Albanian Financial Supervisory Authority (AFSA) renewed the mandates of the seven Board members and a new Chair of the Board was appointed. The AFSA lacks adequate administrative and supervision capacity and its staff remained unchanged. The non-banking institutions came up to 21, since the BoA licenced two institutions in the field of factoring and investment,

Little progress can be reported in the area of **insurance and occupational pensions**. The legislation on life insurance and re-insurance is not aligned with the *acquis*. The Albanian insurance market remained small. It slightly increased by the end of 2011, but during the first half of 2012, registered a shrinking of activities. Voluntary insurance increased particularly during the first half of 2012. The AFSA licensed the third operator in the field of voluntary pension funds. By the end of 2011, the number of voluntary pension contributors had increased by 26% as compared with 2010 and increased by 2.9% in the first quarter of 2012. Nevertheless, the private pension market remains small in terms of both number of contributors and amount of contributions. Following the liberalisation of the motor insurance sector in 2011, the Albanian Competition Authority (ACA) initiated in April 2012 an investigation into a potential agreement on a fixed price in this sector as well as an inspection in May 2012 on the way the insurance companies handle claims and use the Compensation Fund. Uninsured driving remains high. There has been progress in upgrading the information provided through Information Center of Compulsory Insurance (ICCI), while the bonus-malus system is not yet in place.

There has been no progress in **financial market infrastructure**, mainly due to the fact that the Law on Payment Systems has not yet been approved.

There has been no progress on aligning with the *acquis* in the area of **securities markets and investment services**. The securities market continues to be dominated by government T-bills and long-term bonds.

In the field of investment services, in March 2012 the AFSA approved implementing legislation on the establishment, calculation, financing and administration of the Compensation Fund. The AFSA also issued the licence for the first collective investment undertakings management company and approved the first prospectus for issuing bonds. However, the securities stock market remains underdeveloped, with no companies listed on the stock exchange. There was no progress towards adoption of regulations in line with the Prospectus, Market Abuse and Market in Financial Instruments Directives. There were no developments regarding the system for judicial appeal and the legislation governing investor compensation schemes.

Conclusion

There has been some progress in the area of financial services. The banking legislation was further aligned with the *acquis* and the investment market was further developed. Additional efforts are needed in the areas of insurance and occupational pensions, financial market infrastructure and the securities market and investment services. Administrative capacity in

the banking and non-banking sectors remains insufficient. Overall, preparations are moderately advanced.

4.10. Chapter 10: Information society and media

There was some progress in the area of **electronic communications and information and communications technologies (ICT)**. Competitive conditions in telephony markets have progressed due to the introduction of carrier selection and number portability. The Agency for Electronic and Postal Communications (AKEP) approved the first reference unbundling offer for local loop access and set mobile termination rates by applying the cost accounting method that it has developed (based on a bottom-up long-run incremental costs model). A working group on implementation of the universal service has been set up.

However, adoption of the amendments to the 2008 Law on Electronic Communications and implementing legislation is still pending. The draft Law on Rights-of-Way has been awaiting adoption in parliament since 2010. The uncertainties arising from the current arrangements of rights-of-way hinder the development of the sector as a whole. The 112 emergency number has not been implemented yet. No progress can be reported on liberalisation of access to spectrum. A third UMTS/3G licence tender failed as the bids did not reach the reserve price. In August 2012, AKEP announced a tender for granting the two remaining frequencies at a considerably lower reserve price. AKEP's new organisational structure is awaiting adoption in parliament. Its administrative capacity and resources remain weak.

During the year, mobile take-up in Albania showed the strongest growth among the enlargement countries, with the penetration rate reaching 185% at the end of 2011. The fixed telephony and broadband penetration rates also grew, to 12% and 4.9% respectively, but are still low by regional and European standards.

Progress in the field of **information society services** has been uneven. The GovNet network infrastructure has been further improved and extended. However, various parallel networks are under development, which raises doubts about the effectiveness of the current system. The National Institute of Statistics has started to gather information on information society indicators. The Albanian Post has started to issue qualified certificates for e-signature. Progress was made on institution-building with the establishment of the National Cyber Security Agency as a new computer emergency response team. The National Agency for the Information Society has improved its technical capacity. However, the administrative capacity to develop and implement policies and legislation remains weak. The amended Law on e-commerce is still pending. Regulation of conditional access is still awaiting the adoption of the draft Law on Audiovisual Media Services. A new national plan with ambitious targets on broadband development has been prepared.

There has been little progress in the field of **audiovisual policy**. Discussions and consultations were held with various stakeholders and international partners, bringing some improvements to the draft Law on Audiovisual Media Services, notably as regards the independence of the regulatory authority. However, adoption of this law in parliament has been delayed and is still pending. In May 2012, the government adopted a digitalisation strategy and an action plan based on a region-by-region approach, but implementation has not yet started. Several frequencies are used illegally by high-definition broadcasters without a licence. According to the strategy, the final deadline for completing the digital switchover is June 2015. This new deadline raises potential concerns about timely implementation of the digitalisation process.

The regulatory authority — the National Council on Radio and Television (NCRT) — still lacks sufficient administrative and technical capacity. Concerns remain over its independence. The editorial independence of the public service broadcaster has not been strengthened.

Conclusion

There was little progress in the field of information society and media. While a number of pro-competitive regulatory measures were taken for electronic communications, concerns remain about the overall reform and liberalisation of the sector, legal uncertainties and the capacity and independence of the telecoms regulator. Adoption of the Law on Audiovisual Media Services has been further delayed. In spite of some progress as regards the independence of media, concerns remain, particularly regarding the independence of the regulator. Effective implementation of the digital switchover strategy needs to be ensured. Overall, preparations in the area of information society and media are not very advanced.

4.11. Chapter 11: Agriculture and rural development

Progress can be reported on **horizontal issues**. The agriculture budget in 2012 is mainly allocated to direct support schemes linked to production. The public advisory services continued providing information and training to farmers and food business operators in the country. Various acts on land administration and protection have been adopted. However, the pace of setting up a functional land register remains very slow. The policy on land use needs to be streamlined and statistics on land conversion, degradation and fragmentation to be improved. Preparations for the agricultural census are ongoing. A pilot test was carried out in five districts. However, the census initially scheduled for mid-2012 has been postponed to October 2012. Preparations in the field of horizontal issues are at an early stage.

No progress can be reported in the **common market organisation**. Preparations in this area are not very advanced.

In the area of **rural development**, progress had been made on setting up and building the capacity of the Paying Agency and Managing Authority to manage and control rural development funds under the Instrument for Pre-accession (IPARD). A draft accreditation package has been submitted to the Commission. However, this progress has been partially reversed by reorganising the Ministry in a way that the coherence and functionality of the Managing Authority has been undermined. The administrative capacity of all operational authorities, including the National Authorising Officer, the National Fund and the Auditing Authority, needs strengthening. Ownership of the pre-accession preparations needs to be increased and, as an essential part of it, staff retention ensured. Albania needs to prepare for the new strategic framework in the field of agriculture and food strategy for 2014-2020. Overall, preparations in the field of rural development have not advanced much.

There was little progress in **quality policy**. The Ministry of Agriculture has received proposals from the regions regarding the identification of agricultural products and food to be registered as products of protected origin. Recent amendments to the Penal Code contain general provisions regarding the adoption of penal sanctions for the infringement of rights for geographical indicators. Preparations in the area of quality policy are at an early stage.

Progress in the area of **organic farming** has been limited. Albania continued providing direct payments and training on organic production to organic farmers. Preparations in the area of organic farming are at an early stage.

Conclusion

Progress was uneven in the area of agriculture and rural development, in particular with setting up rural development institutions. Efforts are needed regarding capacity-building (of

both private and public players) in rural development, setting up a land register and defining strategic priorities for agriculture and land use. Ownership of the pre-accession preparations should be increased and staff retention ensured. Overall, in the area of agriculture and rural development, Albania has started to address its priorities.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

Some progress can be reported in the area of **general food safety**. The National Food Authority (NFA) has been fully established and staffed. Powers, responsibilities and communication between the Ministry of Agriculture, Food and Consumer Protection (MoAFCP) and the NFA need to be clearly defined. The number of official controls increased in 2011; hence, enforcement of control rules has improved. Although more than 13,000 food establishments have been entered in the AKUnet database, this data needs to be updated and validated in order to be used with regard to risk classification and official controls. Risk assessment capacity is still not established and the Scientific Committee and Panels have not been created yet. Rules on risk management activities have not been adopted and implementing procedures have not been developed. Preparations in the field of general food safety are at an early stage.

There has been little progress in **veterinary policy**. A new Veterinary Law entered into force re-assigning the powers over animal health and welfare to the veterinary service. Staff levels, particularly at central level, remain inadequate. A definition of the tasks, functions and responsibilities of the veterinary service is still lacking, thus hindering sound management of clinical waste, fallen stock and animal by-products, which have become serious issues in terms of bio-security.

An integrated animal database (including the animal health database) has been developed improving the registration of small ruminants and their vaccination against brucellosis. The lack of clear instructions and systematic recording, reporting and analysis of animal movements remains a serious concern in connection with disease transmission and traceability of animal products. Reporting of diseases by local veterinarians and submission of samples to check the health status of animals remain insufficient. Preparations in the veterinary field are not very advanced.

Progress was made in the field of **placing on the market food, feed and animal by-products**. Albania continued the approximation to the EU regulations on the import of food, monitoring of substances and residues in animal products, hygienic conditions and controls for bivalve molluscs and fish and the control of veterinary medicinal products. Food business operators' awareness of the new hygiene rules remains low, and alignment of food and feed establishments with hygiene standards a challenge. Preparations in this area are at an early stage.

No progress can be reported in **phytosanitary policy**. Preparations in this area are not very advanced.

No progress can be reported with approximation to the *acquis* on **genetically modified organisms**. Preparations in this area are still to be launched.

Conclusion

Progress has been limited in the areas of food safety and veterinary and phytosanitary policy. Efforts are needed to improve the definition of powers, responsibilities and communication relating to risk management, registration of movements of animals, control of animal diseases, and upgrading of food and feed establishments. Overall, preparations in the areas of food safety and veterinary and phytosanitary policy are at an early stage.

4.13. Chapter 13: Fisheries

The new Fisheries Law, which lays down the basic principles for management of fishing activities, has been adopted. Its compliance with the *acquis* needs to be established. Implementing legislation is being prepared. Changes to the legal framework will need to be accompanied by corresponding administrative rearrangements to avoid fragmentation of functions, lack of communication and insufficient enforcement of the law.

As regards **resource and fleet management**, Albania has fulfilled task 1 set by the General Fisheries Commission for the Mediterranean (GFCM) and is currently following its recommendations on setting up a fishing fleet register.

In the area of **inspection and control**, there has been limited progress regarding technical implementation capacity. Following the installation of a satellite-based vessel monitoring system (VMS), boat movements are monitored at the Inter-institutional Maritime Operational Centre (IMOC) and the Fisheries Directorate of the Ministry of the Environment, Forests and Water Administration. The sustainability of the VMS needs to be ensured through the provision of adequate financial resources. The restructuring of national inspection services involving merging the fishery inspection service with the forestry and environment inspectorate has not been accompanied by any clear division of tasks between the Fisheries Directorate and the Inspection Directorate.

Catch and landing data are still not reliable, as inspectors do not verify catches on a 24/7 basis. Both the reporting method and the incomplete record of catches compromise the statistics for the Fisheries Directorate, and therefore the development of reliable management plans. The number of inspectors is not sufficient to cover the main sites along the coast. Inspections to fight illegal small-scale coastal fishing remain rare and are not coordinated with other bodies such as the Coast Guard or the Border Police.

In the areas of **structural action, State aid and market policy**, no developments can be reported.

As regards **international agreements**, Albania attends the GFCM and is participating in the AdriaMed project. However, the country is not regularly represented at meetings of the International Commission for the Conservation of Atlantic Tunas (ICCAT) and has not submitted its 2012 inspection plan for implementation of the Recovery Plan for Bluefin Tuna. There has been little progress in this area.

Conclusion

There has been limited progress in the area of fisheries. There is still a need for increased resources and technical capacity for monitoring, control and surveillance of the competent services, including the IMOC, and for more regular participation in the ICCAT. The division of reporting and communication tasks within the Ministry of the Environment, Forests and Water Administration is not sufficiently defined. Overall, preparations are not very advanced.

4.14. Chapter 14: Transport policy

In November 2011, the government adopted the revised five-year National Transport Plan as the main instrument for decision-making and strategic planning in the transport sector in Albania.

There was very little progress on **road transport**. The Road Code was amended in December 2011, introducing new provisions on professional training and initial qualifications of trucks and buses' drivers. Implementing legislation was adopted on vehicle registration. Since September 2011, digital tachograph cards are being issued for drivers and companies. First initiatives on road maintenance concessions have started on the high level network with some

remaining road maintenance issues. Further legislative alignment with the *acquis* is needed in the field of admission to the occupation of road transport operator and access to the road haulage market. There were no developments on roadworthiness tests, driving licences and vehicle inspections. There are no plans to introduce speed limiters. Adoption of the new technical standards for road transport is still pending. Road safety continues to constitute a major problem. The road death toll in the country remains exceptionally high. Road safety rules are not enough dissuasive and properly enforced and no effective road safety campaign have been carried out. The legislation on dangerous goods has not yet been adopted.

Little progress has been made in **rail transport**. The border crossing agreement with Montenegro has been finalised in August 2012. The new Railway Law is still awaiting adoption. A network statement has not yet been published. Resources allocated to maintenance of rail infrastructure are insufficient, with the risk of further deterioration of the network.

There was no progress to report as regards **inland waterways transport**.

There was no progress on **combined transport**.

In the case of **air transport**, little progress has been made on legislative alignment with the *acquis*. Amendments to the Air Code were adopted in November 2011. Implementing legislation has been adopted with a view to further aligning air traffic management and aviation safety regulations with the *acquis*. Implementing legislation aiming at alignment on slot allocation entered into force in September 2011. Legislative amendments were adopted in November 2011 to increase the independence of the Albanian Civil Aviation Authority (ACAA). However, implementation of the first phase of the European Common Aviation Area Agreement remains slow. There were no developments regarding ground handling and airport charges, which remain expensive. The reliability of air traffic monitoring is a cause for concern. The ACAA still lacks qualified staff and relies heavily on external experts for safety oversight duties. The administrative and technical capacity in the air transport sector remains weak.

Some progress can be reported on **maritime transport**. The reorganisation of the Maritime General-Directorate has been completed. Ship Registry and Seafarers Units have been established along with a new Sector dealing with Flag State Control and Port State Control. The Maritime Code was amended in November 2011, expanding the right to provide cabotage services to EU flag-carriers and abolishing the requirement that ships' captains must be Albanian nationals. A decision on reporting formalities for maritime traffic from or to European Union ports was adopted, aiming at alignment with the *acquis*. The detention rate of vessels flying the Albanian flag has improved. However, further efforts are required to strengthen the Flag state and Port State Control. Albania has not yet requested membership to the Paris Memorandum of Understanding on Port State Control and remains on the black list flag of this organisation.

No progress can be reported in the area of satellite navigation. Albania currently has no plans to participate in the Galileo **satellite navigation** programme.

Conclusion

There has been little progress on transport policy, mainly concerning cabotage in the maritime sector. Further efforts are required on alignment with the transport *acquis* and to implement legislation effectively. Administrative and technical capacity remains weak across the different modes of transport, particularly in the case of aviation and road safety. Rail infrastructure maintenance is a concern and needs more resources. Overall, preparations are not advanced.

4.15. Chapter 15: Energy

There was little progress on **security of supply**. Albania improved its interconnection capacity through the inauguration of a new substation in Tirana but further efforts are required to complete interconnections with neighbouring countries. Electricity generation capacity has improved through the construction and the operation of several small hydropower plants but the country remains over-dependent on hydrological conditions. No progress was made with implementing the *acquis* on security of electricity supply in line with the Energy Community Treaty. Albania, which is not connected to any international oil or gas pipeline, signed in September a Memorandum of Understanding with Greece and Italy on the Trans-Adriatic Pipeline (TAP), in the framework of the Southern Gas Corridor.

There was some progress towards enforcement of the legal obligation to hold a 90-day emergency oil stock reserve. Administrative measures were imposed on companies that failed to fulfil their obligations. Further efforts are still required to strengthen the technical and enforcement capacity in order to ensure that the legislation is fully implemented.

There has been little progress with the **internal energy market**. The restrictions on allocation of interconnection capacity were formally removed. Auctions open to third parties have been being held since February 2012. The government continued to issue concession permits for the construction of small hydropower plants. However, the number in operation remains limited due to legislative gaps hindering enforcement of contracts (*See also Chapter 5 — Public procurement*). The establishment of more than one hundred small hydro-powers plants is foreseen yet, no Strategic Environmental Assessment or socio-economic study have been carried out so far to assess their overall impact.

No progress was made on aligning the Power Sector Law with the *acquis*. Albania's legal framework still substantially fails to comply with the Energy Community obligations. Albania has not yet started aligning its legislation with the EU's third internal energy market package. The generation and wholesale supply operations of the state-owned company KESH have not yet been unbundled. Distribution and network losses increased and bill collection rates further deteriorated. Domestic production of electricity decreased by 47% in 2011, mainly due to bad hydrological conditions. Despite some improvements in power generation during the first half of 2012, this has resulted in financial difficulties for KESH, which had to request subsidies and a state guarantee on loans. In addition, a dispute between KESH and the distribution company CEZ over outstanding mutual debt remains unsolved and may endanger the stability of the electricity sector. The Energy Regulatory Entity (ERE) approved a decision on electricity tariffs for 2012 and developed a new balancing model for the electricity market. While the electricity wholesale price has increased significantly due to higher imports, the regulated electricity prices have only increased slightly. ERE has repeatedly reduced the regulated generation price to offset the impact of higher imports. The monitoring and enforcement powers of the ERE remain weak, as does its independence. No substantial progress was made in preparing the implementing legislation in the field of gas, including the tariff methodology.

There was no progress in the field of **renewable energy**. The Law on Renewable Energy remains to be adopted. Substantial efforts are required to increase use of Albania's significant potential for renewable energy, to adopt the national renewable energy action plan and to achieve the target in 2020. Administrative barriers remain as regards licensing and authorisation of renewable energy investments and connection of renewable energy producers to the grid.

There was no progress on **energy efficiency**. The new Law on Energy Efficiency remains to be adopted. Substantial efforts are needed to prepare the implementing legislation and to implement the national energy efficiency action plan for 2011-2018.

Very little progress was made with **nuclear energy, nuclear safety and radiation protection**. Albania still lacks an adequate legal framework and administrative capacity in this field. Albania adopted the basic legislation on protection from non-ionising radiation. A regulation was adopted in May 2012 on the protection of the general public against ionising radiation. However, further efforts are still needed to align the legislation with the *acquis* and to ensure nuclear safety and safe radioactive waste management, security, non-proliferation and radiation protection.

Conclusion

There has been little progress in the energy sector. Lack of diversification hinders security of electricity supply. Energy market reforms require significant efforts to ensure the viability of the sector. The administrative capacity and independence of the energy regulatory Entity require further strengthening. Overall, preparations are not very advanced.

4.16. Chapter 16: Taxation

There was some progress in the field of **indirect taxation**. *Value Added Tax (VAT)* refund procedures showed some improvement in the amount reimbursed. Yet, delays in VAT refunds persist and the new VAT law drafted aiming at further approximation to the *acquis* is still awaiting adoption. Use of fiscal devices (cash registers) by businesses increased, but further efforts are needed to strengthen enforcement of legislation and reduce tax evasion.

The new *Excise* Law that entered into force on 1 October brings the Albanian legislation closer to the *acquis*. However, the excise structure and rates are not yet in line with the related EU Directives. Responsibilities for excise were transferred from the tax administration to the customs administration as of 1 July 2012. Implementing legislation was approved on the use of new fiscal stamps as of 1 March 2012.

There was little progress in the field of **direct taxation**. The threshold for personal income declarations was increased to approximately €14,000. Personal income declarations started to be applied for the first time in 2012. Further efforts are required to ensure adequate technical and analytical capacity for managing the personal income declaration process. Draft legislation aiming at alignment with the *acquis* on mergers and savings is awaiting adoption.

There was limited progress as regards **administrative cooperation and mutual assistance**. An agreement signed with Ireland to avoid double income and capital taxation and prevent tax evasion entered into force in January 2012.

There was some progress in the field of **operational capacity and computerisation**. The Taxpayers Advocate continued actively to address complaints from taxpayers but its administrative capacity and operational independence remain weak. In December 2011 the government approved the structure of the Tax and Customs Academy but the Academy is not yet operational. A training strategy was adopted for staff of the Tax Investigation Directorate. Tax officials received training on collection of information and on investigation of tax evasion and made progress on exercising their judicial powers. The number of cases of tax evasion which were identified and reported by regional tax offices to the Tax Investigation Directorate increased and more cases of potential criminal offences were referred to Regional Prosecution Offices.

Consultations with businesses and civil society took place through the Business Advisory Council and the Taxation Council when drafting the Laws on VAT and Excise. However, the level of participation by businesses in drafting policy and legislation remains low.

Measures were taken to strengthen internal auditing and to fight corruption in the tax administration. Performance audit practices and monitoring indicators were established, manuals on internal audit were prepared and staff received training on the internal Code of Ethics. However, corruption in the tax administration remains a cause for concern.

As regards computerisation, an electronic filing system for payrolls of social and health security contributions was introduced and a new program to register revenue collection was developed. However, the IT system is not adequate for the needs of the GDT. Electronic payment of taxes remains underdeveloped due to limited facilities offered by commercial banks and telephone operators.

Conclusion

There was some progress in the field of taxation. Legislation on indirect taxation was further aligned with the *acquis* and the capacity of the Tax Administration for investigation and internal audit were strengthened. Further efforts are required in the fields of direct taxation, tax collection, VAT refunds and IT. Overall, preparations are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

There has been no progress on **monetary policy** with a view to alignment of legislation to the *acquis*. The Law on the National Bank was not adopted and no progress was achieved on the procedure for dismissal of the Governor, the personal independence of the Council members and the accountability of the National Bank.

The Bank of Albania continued to monitor the inflation rate and intervened by downgrading the basic interest rates five times within a short period, keeping inflation within the target range. Monetary policy remained sound and exchange rate stability was broadly preserved.

Albania has made little progress in the field of **economic policy** in terms of legislative alignment with the *acquis*. The Economic and Fiscal Programme (EFP) for 2012-2014 was adopted in February. Its key objectives include macroeconomic stability and fiscal consolidation, while maintaining a high level of public investment and sustaining economic growth with a view to achieving fast convergence with EU income levels. The programme is a policy coordination instrument based on several medium-term government strategies. It broadly follows the European Commission's requirements on format and content, although there are some gaps in the data. Public finance data do not comply with the ESA95 methodology. Considerable further efforts are needed towards improving the relevant labour and wage statistics and forecasts and addressing the link between the reforms and their fiscal and budgetary implications.

The EFP fails to present any medium- and long-term strategy or to quantify the budgetary impact of the measures. Capacity for economic policy formulation and coordination remains weak.

Conclusion

Albania has made no progress on legislative alignment with the *acquis* in the field of monetary and economic policy. Little progress has been made with preparation of the economic policy document. There is insufficient capacity for policy formulation. Overall, preparations in the field of economic and monetary policy are not yet sufficient.

4.18. Chapter 18: Statistics

Little progress can be reported in the area of **statistical infrastructure**. The budget and staff of the National Statistics Institute (INSTAT) increased, in advance of the 2011 population and housing census and of the agricultural holdings census, which is expected in autumn 2012. The infrastructure at INSTAT's main office in Tirana has improved with the establishment of a data processing centre in September 2011. However, INSTAT regional offices still lack basic infrastructure and internet access.

In March 2012, the Law on Statistics was amended to place INSTAT under the direct authority of the Prime Minister. Yet, the amendment neither addressed the issue of the professional independence of INSTAT nor introduced a provision concerning the role of INSTAT as the coordinator of the national statistical system. It also failed to ensure broad representation in the Statistical Council. The 2012-2015 official statistics programme, which should plan production of the statistical data necessary for observation of the economic, social and environmental situation in Albania, has not yet been adopted.

Good progress has been made with **classifications and registers**. The codification of units in the business register based on the NACE Rev.2 classification has been completed and covers both enterprises and local units. The quality of the business register data was improved using information collected in the census of economic enterprises but the quality of the data on local units has to be raised. The procedure for assessing the activity status of enterprises and local units (active/not active) has been completely reviewed, based on available statistical sources and a new method, which is consistent with the EU standards.

There has been progress in the area of **sectoral statistics**. Work is under way on improving quarterly national accounts and regional GDP calculations. Institutional sectoral accounts are being developed. Further efforts are needed to improve accuracy and the level of detail in order to align with EU standards.

INSTAT conducted a population and housing census in October 2011, making efforts to meet international standards. The first preliminary results were published in December 2011. Data processing is continuing. Preparatory activities are in progress for the 2012 census of agricultural holdings. The methodological framework for the agricultural census was finalised on the basis of a pilot exercise run in December 2011. Further efforts are still needed to make sure that the operation will be conducted successfully.

In the area of the other sectoral statistics, some progress has been made in the direction of improving data editing processes and estimation criteria for structural business statistics.

Conclusion

Some progress has been made in the area of statistics. INSTAT conducted a population and housing census in October 2011. Substantial efforts are needed to improve some areas of sectoral statistics, including securing the forthcoming agricultural census. The independence and administrative capacity of INSTAT have to be secured. Overall, preparations are moderately advanced.

4.19. Chapter 19: Social policy and employment

There was no progress in **labour law**. Amendments to the Labour Code, including a roadmap for alignment with the *acquis* in the field of labour law, are pending adoption.

There has been little progress on **health and safety at work**. The State Labour Inspectorate has been strengthened with the creation of a new Directorate for Standards of Inspection of Social Services with five employees. However, no progress has been made towards establishing the remaining 23 local offices of the State Labour Inspectorate. Several accidents

at work and a deadly explosion in October 2011 hit a chrome mine due to poor technical working conditions. Overall, health and safety at work conditions and enforcement of the legislation continue to be insufficient.

There was little progress in the **social dialogue**. A Tripartite Commission for Equal Opportunities was established within the National Labour Council (NLC). Representativeness criteria for NLC membership are being discussed with social partners. However, the current system of representation in the NLC does not comply with the International Labour Organisation's (ILO) standards. Trade unions have expressed concern over the unwillingness of a state institution to sign collective agreements. Bipartite social dialogue and collective bargaining in the private sector remain underdeveloped.

There has been little progress as regards **employment policy**. An action plan for youth employment is being implemented but no action plan for employment has been adopted yet. As regards the labour market situation, the level of inactivity remains high, especially among women, as does the official unemployment rate, although it decreased slightly in 2011, to 13.3%. The actual level of unemployment is however distorted by the importance of subsistence agriculture. Unemployment primarily affects youth, vulnerable groups and also, as a new trend, returnee emigrants. The employment rate showed a slight increase (by 1.6), although at a decelerating rate in 2012. An evaluation of active labour market measures has been initiated. Measures were taken to promote first employment of job-seekers and employment of women from vulnerable groups. However, the total budget for employment promotion programmes in 2012 was decreased by 40% compared with 2010, leading to a reduction in the number of participants. In 2011, 4,880 people received public vocational training that is 3.5% of the total number of unemployed officially registered. Currently, there are nine vocational centres in big cities, plus a mobile vocational training centre in North-Eastern Albania. Some efforts have been made to fight informal employment which continues to make up a substantial share of employment in Albania. 2011 Labour Force Survey data are expected in October 2012.

The National Employment Service (NES) is working on computerisation of all employment offices in order to create databases of job-seekers and employers. However, the levels of performance and attractiveness of the NES remain low. The administrative capacity of the NES at both national and local levels requires further strengthening.

No progress can be reported with preparations for the **European Social Fund**. (*See also Chapter 22 – Regional policy and coordination of structural funds.*)

There has been little progress in the area of **social inclusion**. The mid-term evaluation of implementation of the Strategy for Social Inclusion for 2007-2013 has not been finalised yet. No recent data exist on the level of poverty. Very little progress has been made on implementation of policies targeting Roma inclusion, partly due to the lack of financial and human resources allocated at the level of local government units. Roma unemployment, which was already high, has further increased. Child labour is notably affecting Roma.

No progress was made regarding employment of people with disabilities. The Law on Employment Promotion has not been properly implemented and the employment quota has not been enforced. The framework Law on the Rights of People with Disabilities is awaiting adoption.

Some progress can be reported in the area of **social protection**. Legislation implementing the Law on Social Services and Assistance was adopted to expand the categories eligible for economic aid and to raise the aid ceiling for the benefit of large families. The Law on Collection of Compulsory Contributions for Health and Social Insurance was amended in

February 2012 to introduce electronic declarations of payments as from July 2012. In February 2012, the government reviewed the pension scheme with the aim of increasing its efficiency and addressing the low level of private contributions. However, the social insurance and pension schemes have not been functioning properly. Disability and pension payments have suffered from delays and disruption. Difficulties with contributions and contributor/recipient ratios remain a concern. The electronic database of pensions has not been completed and the difference in treatment between genders has not been revised.

Moderate progress can be reported in the area of **anti-discrimination**. The Law on Protection from Discrimination is largely in line with the *acquis*, but its implementation remains insufficient. A strategic plan (2012-2015) for implementing the Law on Protection from Discrimination and an action plan of the Commissioner for Protection from Discrimination (CPD) have been adopted. The CPD has focused on strengthening its capacity and raising awareness. The CPD has signed cooperation agreements with several ministries. However, the number of cases brought to the attention of the Commissioner remains low and, as yet, has not generally led to financial sanctions against the perpetrators. General awareness of the law and of the possibilities to appeal to the CPD remains low.

Little progress can be reported in the area of **equal opportunities** between women and men. There is still a gap between the legal framework and the actual level of equality in relation to employment, pay, access to entrepreneurship and credits. In July 2012, a Council of Ministers decision on gender mainstreaming in the medium-term budget programme for all line Ministries was approved. Awareness-raising activities have focused on women's political participation and gender quota, women's entrepreneurship and combating violence against women. However, women continue to be under-represented in the labour market, in particular in political and economic decision-making. Sufficient financial and human resources are lacking at central and local government levels leading to slow implementation of the 2011-2015 national strategy on gender equality.

Conclusion

There has been little progress in the fields of social policy and employment. The labour market continues to be shaped by high informality, low participation of women, and relatively high youth unemployment. Social inclusion of persons with disabilities and the Roma minority remain insufficient. Sustainability of funding needs to be addressed to ensure successful implementation of social assistance and protection reforms. Implementation of policies in this area continues to be a challenge. Overall, preparations are not very advanced.

4.20. Chapter 20: Enterprise and industrial policy

Some progress has been made as regards **enterprise and industrial policy principles**. Albania continued to implement the Small Business Act, notably in the areas of company registration and business start-up. The National Registration Centre for Business extended the coverage of electronic registration. A new one-stop shop was established in February in Tirana to reduce the time taken for issuing local government licences and permits. A new package of regulatory reforms was launched in March to reduce delays in registering property, obtaining construction permits and connecting businesses to the electricity grid. Yet, weaknesses persist as regards the provision of support to Small and Medium Enterprises (SME), innovation policy and environmental standards. There was no progress with approval of legislation related to regulatory impact assessment.

There was some progress on implementation of the Business Innovation and Technology Strategy. An Innovation Fund of approximately €285,000 has been established for 2011-

2014. The Albanian Investment Development Agency has been fully staffed and its board adopted the regulation for the implementation of the Innovation Fund.

There was little progress in the field of **enterprise and industrial policy instruments**. Measures to facilitate access to finance for SMEs continued under the Credit Guarantee Fund for SMEs and the European Fund for South-East Europe. Implementation of the credit support scheme financed by the Italian government continued, with preparations being finalised for a second phase of the scheme covering the period 2012-2014.

Albania is an associate partner in the Competitiveness and Innovation Programme (CIP-EIP). In March 2012, it also became a member of the European Enterprise Network. Preparations for alignment with the directive on late payment are at an early state.

In the area of **sector policies**, some progress has been made on enforcing regulations on mining. The government revoked licences of companies failing to fulfil their obligations. There was some progress on implementation of the tourism strategy, mainly related to product diversification and improving access to tourist areas. Preparations for drafting a new tourism strategy and revising the Law on Tourism have started.

Conclusion

There was some progress in the area of enterprise and industrial policy. Some measures were taken to facilitate access to financing for SMEs and to improve the regulatory framework for doing business. Overall, preparations are moderately advanced.

4.21. Chapter 21: Trans-European networks

In the area of **transport networks**, Albania has made some progress. It continued to participate in the Memorandum of Understanding on the development of the South-East Europe Regional Transport Network which was included in the revision of the trans-European transport network (TEN-T) proposed by the Commission in October 2011.

As regards road infrastructure, construction of the Tirana-Elbasan road and of a new stretch on the North-South corridor near the border with Montenegro is progressing well. Some infrastructure projects have been delayed because of expropriation problems and lack of financial resources. Special attention needs to be paid to comprehensive environmental impact assessment. A call for tenders for the maintenance concession on the Milot-Morine motorway was launched in February 2012. Maintenance and infrastructure management are two issues yet to be addressed. Substantial financial resources are still needed to maintain and upgrade transport infrastructure properly. As regards rail infrastructure, no measure has been undertaken to rehabilitate the network. As regards port infrastructure, construction of the passenger terminal in Durres was completed in May 2012. Work is underway at Shengjin port and has recently started in Durres and Saranda. Work planned in Vlora has not started yet.

There was some progress as regards **energy networks**. A new electricity transmission substation was inaugurated in Tirana in November 2011. It is one of the largest in Albania and it forms part of the interconnection network with Montenegro. Preparations for upgrading the 400kV transmission line with Kosovo have been delayed. Preparations for construction of the interconnection between Vlora and Brindisi are slow. There were no developments towards a strategy for the introduction of natural gas.

Conclusion

There was some progress in the area of trans-European networks. Rail transport remains underdeveloped and substantial investment is needed to maintain and upgrade transport infrastructure. Concerning energy networks, further efforts are required to complete electricity

interconnection lines with neighbouring countries and to start developing a strategy for the introduction of natural gas. Overall, preparations are not very advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

The *acquis* on regional policy and coordination of structural instruments does not require transposition into national legislation. Nevertheless, several areas of the **legislative framework** have an impact on regional policy. No particular developments can be reported in the legislative framework. Preparation of a self-standing Law on Regional Development was abandoned as relevant policy measures are now included in the National Strategy for Development and Integration (NSDI) for 2013-2020.

There has been some moderate progress in the **institutional framework**. An accreditation package for IPA component I was finalised and submitted to the European Commission for assessment in February. Amendments to the legal basis putting in place structures for implementation of IPA components II, III and IV (precursor instruments of EU Cohesion Policy) are awaiting adoption. Implementing and operational agreements will have to be signed between the National Authorising Officer, the Head of Operating Structures and the bodies forming the operating structures for components III and IV once the legal basis has been adopted. The national roadmap for the transfer of management responsibility to the national authorities in respect of IPA components II, III and IV has been revised. In order to segregate the programming and monitoring functions, the Ministry of Integration has revised its internal organisational structure and created a separate Monitoring Section.

Some modest progress has been made on strengthening the **administrative capacity** of the IPA bodies. A training plan for the staff of the IPA bodies was prepared following completion of the needs analysis in June 2011. As a result, training on strategic planning, programming, monitoring, procurement, irregularities, risk management and other relevant fields was provided through technical assistance and by the Training Institute for Public Administration. Additional staff have been recruited in the Central Contracts and Finance Unit. However, serious operational weaknesses, especially lack of expertise and staffing, remain within the line ministries that will be in charge of IPA assistance once decentralisation has been achieved. Adequate administrative capacity remains to be built up at all levels.

Some progress has been made on **programming**. Preparations for drafting the National Strategy for Development and Integration (NSDI) for 2013-2020 started in February; its adoption is planned by March 2013. The NSDI will be a synthesis of all government strategies and policies, including regional policy, and will guide the medium-term budget programme. The revised draft operational programmes for IPA components III and IV were submitted to the European Commission for comments in September 2011. Significant strengthening of administrative capacity in the areas of programming and project preparation is needed. Development of a project pipeline remains a major issue.

There has been some moderate progress in the areas of **monitoring and evaluation**. The monitoring and evaluation procedures are being revised to reflect the new approach to IPA programming. A designated monitoring unit has been established in the Ministry of Integration with a planned staff of two. Training on monitoring and evaluation procedures has been provided as part of the technical assistance.

Some progress can be reported in **financial management, control and audit**. Internal manuals on financial management and the internal control framework have been prepared and training has been given on financial management. The analytical accounting system necessary for the Central Contracts and Finance Unit and the National Fund for managing the financial transactions for IPA components I, II, III and IV is fully functional.

Conclusion

There has been some progress in the areas of regional policy and coordination of structural instruments. Considerable efforts are needed to establish the necessary institutional and administrative capacity at central and local levels and to develop a pipeline of mature and quality projects. Overall, preparations in this area are still at an early stage.

4.23. Chapter 23: Judiciary and fundamental rights (*see also Political criteria*)

There has been moderate progress in completing the legal framework for judicial reform. Implementation of the judicial reform strategy and the relevant action plan started, albeit slowly. Budget allocation and planning, the level of human resources, and interinstitutional cooperation remain areas of concern. Albania needs to further accelerate the implementation of the judicial reform strategy in order to ensure the independence, efficiency and accountability of its judicial institutions.

Working groups were set up within the Ministry of Justice (MoJ) to review key legislation on the functioning and organisation of the High Court, the Constitutional Court, the High Council of Justice (HCJ), the School of Magistrates, the Judicial Budget Administration Office, and the Judicial Administration. The results of these working groups still need to be finalised. The Law on Administrative Courts, the Law on the National Judicial Conference, and the Law on the Profession of Lawyer were adopted, as well as amendments to the Criminal Code (*see also anti-corruption policy*).

Some progress has been made with regard to the *independence* and impartiality of the **judiciary**. A set of rules on transfers of judges has been approved by the HCJ in September. The neutrality, efficiency and independence of the High Court and the Constitutional Court are still not fully guaranteed under the current legal framework.

An audio-recording system is gradually being installed in the courts but has not yet been connected to the case management system. Court decisions are not published systematically and the quality of decision-drafting remains low.

In relation to *accountability* in the judiciary, constitutional provisions restricting the immunity of judges were adopted. Steps have been taken to address overlapping inspection powers between the inspectorates of the HCJ and of the Ministry of Justice through the implementation of a Memorandum of Understanding on inspections; yet, the risk of overlapping persists. Amendments to the Law on the HCJ related to inspections have yet to be finalised. Evaluations have not yet been conducted with all judges. There has been little progress in the area of disciplinary responsibility and integrity safeguards.

The School of Magistrates is providing good quality curricula and training, on ethical and other issues. However, the School's budget is largely insufficient to cover its planned activities.

Only limited progress was made regarding the *efficiency* of the judiciary, though some steps have been taken to address the problem of unreasonable delays in court cases often caused by postponement of court proceedings. The lack of a comprehensive legal framework in line with European standards, with clearly organised courts and judicial staff, hampers the efficiency of court activities. Hearings often continue to be held in judges' offices and working conditions in courts remain inadequate. Court management remains poor due to a lack of human and financial resources. Court backlogs, the excessive length of proceedings and number of sessions undermine the efficiency of the judicial system.

Regarding enforcement of court decisions, the new private bailiff system is in place.

Moderate progress was made on **anti-corruption policy**. The implementation of the anti-corruption strategy and specific measures in different sectors and areas under the 2011-2013 action plan has continued, albeit slowly. Reports on the implementation of the action plan by line ministries and other relevant institutions are not yet published regularly.

There has been moderate progress in strengthening the legal framework. This includes the implementation of recommendations of the Group of States against Corruption (GRECO) related to incrimination and political party financing. Amendments to the Law on Notaries were passed introducing the digitalisation of notaries' activities. Progress was made through the adoption of necessary constitutional changes to abolish the unlimited immunity of high-level public officials and judges.

There was limited progress as regards the institutional framework and the establishment of specific mechanisms to fight corruption. Efforts were made to improve interinstitutional cooperation, partly by setting up two interinstitutional working groups on exchanging information and standardising statistics on corruption cases. The High Inspectorate for Declaration and Audit of Assets (HIDAA) signed Memoranda of Understanding to promote cooperation with several institutions such as the Supreme State Audit, IPRO, ALUIZNI and the Ministry of Justice.

There was no progress regarding the institutional role played by the Department of Internal Control and Anti-Corruption (DIACA). It does not have sufficient institutional independence, authority and administrative capacity to accomplish its tasks.

Joint Investigative Units, although continuing to be good instruments for investigating and prosecuting corruption cases, have inadequate human resources and technical equipment, as do most investigation and law enforcement agencies. A lack of technical equipment for special investigative measures hampers the effectiveness of anti-corruption policies. Internal control departments across ministries often lack specialist expertise and remain insufficiently focused on fighting corruption. The level of cooperation between law enforcement agencies, in particular between the police and prosecutors, remains insufficient.

Proactive investigations based on effective use of intelligence and risk assessments are still lacking in Albania. Few corruption cases end in convictions. A convincing track record of investigation, prosecution and convictions in corruption cases at all levels, including senior officials, has not yet been established. Criminal statistics and statistics on conflict of interest cases need to be strengthened. Corruption in the judiciary remains a particularly serious problem. Corruption also remains a particularly serious problem in the tax, education and health sectors.

Albania has further enhanced the legal and institutional framework for the protection of **fundamental rights**. Appointment of the new Ombudsman helped improve the functioning of the national human rights institutions. Most of the complaints received by the Ombudsman relate to allegations of ill-treatment by police, of non-execution of court decisions, of delays in judicial proceedings and of violations of the right to employment by the public administration. However, there are still some legal gaps and implementation of legislative and policy tools in the field of fundamental rights continues to be slow and to be largely reliant on civil society and donor funding.

Progress can be noted regarding *prevention of torture and ill-treatment*. Follow-up of the Ombudsman's recommendations has improved and the State Police started cooperating with two non-governmental organisations. A new database, known as ADAM, was introduced for compiling data on escorted, arrested and detained persons. Amendments to the handbook on the rules and treatment of arrested and detained persons in police stations were adopted.

However, concerns remain over reported cases of ill-treatment and failure by police to systematically observe procedures for arrest and custody. Plans have been made for building a special medical institution for treating mentally ill offenders, but it will take time until its establishment and additional specialist care needs to be awarded to this category of detainees.

Progress has been made concerning the *prison system*, with continuous training and improvement of standards. Standards of living in prisons still vary depending on provision of food and equipment by families. Four new regional offices of the Probation Service were opened and plans for additional resources have been approved. Continued over-use of pre-trial detention is a concern.

Little progress was made regarding *access to justice*. The implementation of the Law on Free Legal Aid has been slow and neither the bylaws regarding the recruitment of free legal aid lawyers nor the procedures to request free legal aid are implemented effectively. The State Commission for Legal Aid has only handled a limited number of cases. Access to justice for vulnerable groups is impeded, especially by high judicial administration fees.

Some progress was made in the field of *freedom of expression* with the adoption of amendments to the Criminal and Civil Codes removing prison sentences for libel and defamation and repealing special protection of public officials. However, these offences still remain punishable by potentially high fines under the Criminal Code. Concerns remain over insufficient transparency of ownership, use of the media to promote political and economic private interests and lack of progress in strengthening the editorial independence of the public service broadcaster.

Freedom of assembly and association has generally been respected. Civil society development continues to be impeded by difficulties in accessing funding, including from the Agency for Support to Civil Society. Consultation of civil society in the legislative process is not systematic. *Freedom of thought, conscience and religion* continued to be respected.

Some progress was made regarding *women's rights and gender equality*. Albania has signed the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence. It has started to implement the 2011-2015 national strategy on gender equality and domestic violence and gender-based violence. Amendments to the Criminal Code were adopted, introducing further protection from domestic violence and one national shelter for victims of domestic violence is operational. Coordination between national and local institutions remains insufficient. Women's participation in decision-making remains limited.

There has been uneven progress in the area of *children's rights*. The adoption of the action plan of the national strategy for child protection 2012-2015 is a positive step. The process of establishing local child protection units continues, albeit with much reliance on civil society and donors to provide services. Effective progress in implementation depends on strengthening human and financial resources and coordination between central and local level. The juvenile justice strategy and action plan have not been adopted. Over-use of pre-trial detention for juveniles is a serious concern.

There has been limited progress regarding *socially vulnerable and/or persons with disabilities*. Work on the draft law is ongoing and differentiated status for certain disabilities remain. Persons with disabilities continue to face difficulties in accessing education, employment, health care and social services.

Moderate progress was made in the area of *anti-discrimination policies*. The Office of the Commissioner for Protection from Discrimination launched a strategic plan for 2012-15 and an action plan for 2012 and focused on awareness raising and capacity building. However,

general awareness of the Law on Protection from Discrimination remains low and a track-record of cases brought to final completion has to be built up. A plan of measures for non-discrimination on the basis of sexual orientation and gender identity has been adopted. At the same time, discrimination against lesbian, gay, bisexual and transgender persons, the Roma minority and other vulnerable groups persists. Albania does not publish data collected on hate crimes and hate-related incidents. In the reporting period, there were no convictions for crimes related to racism and xenophobia.

Labour and trade union rights have generally been respected and a dialogue has been launched regarding the criteria for membership of the National Labour Council. Progress remains to be achieved on collective bargaining in the public and private sector.

Some progress was achieved in the area of *property rights*, notably through the adoption of a new law on registration of immovable property and through the adoption of a cross-cutting strategy and action plan. Efficient coordination and monitoring is necessary to ensure the implementation of the strategy and consistency between the legislation in force and future initiatives. Consultations with stakeholders need to continue in this respect. The land registry has not yet been completed. Former owners still have unresolved claims for compensation for and restitution of property confiscated under the communist regime.

Although inter-ethnic relations remained good overall, very limited progress can be noted in enhancing the legislative and policy framework regarding *respect for and protection of minorities and cultural rights*. The mandate of the State Committee for Protection of Minorities has not been enhanced nor has work started towards drafting a comprehensive legislation on minorities which was recommended by the Advisory Committee of the Framework Convention for the Protection of National Minorities. The full results of the October 2011 population and housing census, which included optional questions on ethnic origin and religious affiliation, have not been published yet.

Very limited progress was made regarding *Roma* inclusion. Implementation of policy tools in this field continues to be very slow, notably due to inadequate resources and insufficient coordination between the local and national institutions. Roma continue to face very difficult living conditions and discrimination. There is concern over forced evictions of Roma and the authorities' poor response to the community's housing problems. Difficulties arise from the lack of unified official statistics regarding the Roma population in Albania.

Some progress was made in the area of *protection of personal data*, with amendments to the Law on Personal Data Protection aimed at further approximation with the EU *acquis*. The Office of the Commissioner for Personal Data is still not listed among the institutions which always need to be consulted on draft legislative proposals. The Office adopted and implemented two procedural manuals. It performed more inspections and adopted several sector-related instructions.

There have been no developments regarding **EU citizens' rights**; amendments to the Law on Foreigners await adoption.

Conclusion

Overall, there has been some progress in implementing policies on the judiciary and fundamental rights, notably through efforts to address the relevant key priorities set out in the Commission Opinion. Yet, significant gaps in the legislative framework remain, in particular as regards judicial reform. Consistent implementation of legislative and policy tools remains a challenge in all areas under this chapter. Albania's alignment with European standards and the *acquis* in the field of the judiciary and fundamental rights is not very advanced.

4.24. Chapter 24: Justice, freedom and security

Some progress has been achieved in the area of **migration** policy. Progress was achieved in gathering and publishing analytical information on legal and irregular migration. Implementation of the readmission agreement has continued smoothly. In 2011 just 15,185 return cases were recorded, due to a sharp decline in returnees from Greece. The institutions in charge of implementing the strategy and action plan for returned migrants should be reinforced. Adoption of the new National Migration Strategy is still pending. Preparations in this area are advancing moderately.

In the area of **asylum**, no significant progress has been made. The institutional and legal framework is partly in place. However, preparations in this area need to be stepped up. By August 2012, Albania had granted asylum to 81 individuals, with 20 more applications pending. Refugees and persons granted complementary protection have yet to be provided with ID documents. An effective pre-screening process needs to be ensured at the border in view of potential new migration trends and the possible rise in illegal transits by third-country nationals. Preparations are moderately advanced.

Some progress was made on **visa policy**. An amendment to the Law on Foreigners, aiming to adapt the visa arrangements to the *acquis* is still pending. The implementation of visa liberalisation progressed smoothly overall. Following an increase in unfounded asylum applications from Albanian nationals, Albanian authorities reacted promptly and cooperated with Member States. Efforts to ensure public awareness of the rights and obligations stemming from visa liberalisation and to prevent abuse need to continue. Since July 2012, the Total Information Management System (TIMS) has been linked to the civil registry database at border-crossing points. The Commission has continued monitoring post-visa liberalisation and presented its third monitoring report to the European Parliament and the Council in August 2012.

There has been progress in the area of **external borders and Schengen**. A protocol for joint patrolling was signed with Kosovo, an agreement on establishment of a new joint border control point was signed with Montenegro and an agreement on exchange of information was signed with the former Yugoslav Republic of Macedonia. Mobile border patrols started operating, covering the green border. The ban on speed boats remains in force. Threat assessment capacity in the Border and Migration Police (BMP) needs to be strengthened. Cooperation and coordination of institutions involved in managing the blue border needs to be tightened and the financial sustainability of surveillance mechanisms needs to be ensured. Risk analysis and intelligence in the Interinstitutional Maritime Operations Centre (IMOC) need to be reinforced, including its connection to the MEMEX criminal intelligence information system. Overall, preparations in this area have advanced.

There has been progress on **judicial cooperation in civil and criminal matters**. The Third Additional Protocol to the European Convention on Extradition entered into force but has not been applied yet. Cooperation agreements were signed with EULEX, Europol, Austria, the Netherlands, Russia and the former Yugoslav Republic of Macedonia. The smooth implementation of the extradition agreement with Italy has to be ensured. Albania adopted a law facilitating cooperation with EULEX in the framework of the investigation into alleged trafficking of human organs. Preparations for concluding a cooperation agreement with Eurojust have advanced. Overall, there has been moderate progress in this area.

In the field of **police cooperation and the fight against organised crime** — one of the key priorities set in the Commission's Opinion — some progress can be reported. Greater use of MEMEX has improved data exchange within the Albanian State Police (ASP). However, the operational capacity of the forensic laboratory, especially DNA interpretation and a DNA

database, needs further support. A decision was taken to restructure the witness protection services with the purpose to increase their effectiveness and meet EU standards. An action plan against trafficking of vehicles has been adopted and progress has been made on detecting trafficked vehicles at the borders. The implementation of the 'anti-mafia law' has resulted in an increase in the seizure of criminal assets. However, efforts in this area need to be intensified substantially through closer coordination between law enforcement and judicial authorities, leading to effective recovery of illicitly-obtained assets.

Interinstitutional cooperation has progressed in investigations of financial crime and money-laundering. However, there is an urgent need for key institutions to step up coordination and information exchange and thus maximise their capacity to investigate serious and organised crime. Continuous specialised training involving police officers, prosecutors and judges remains necessary. Standard operating procedures for managing serious crime scenes have been introduced. Threat assessment and proactive investigations should be further promoted. Preparations in order to build a solid track record of investigations, prosecutions and convictions at all levels are moderately advanced.

Progress was reported in the fight against trafficking in human beings, even though Albania is still a source country for trafficking in human beings and internal trafficking remains a concern. Progress was made in the engagement of the Office of the National Anti-Trafficking Coordinator (ONATC). A joint working group was established in order to improve the investigation and trial proceedings. Standard operating procedures for identification and referral of victims/potential victims are in place and are being implemented effectively. A new national referral mechanism has been established.

Progress can be reported in the fight against money-laundering. Taking into account MONEYVAL recommendations, amendments to the Criminal Code were adopted establishing the autonomy of money-laundering crime from the predicate offence and the crime of self-laundering. The penalty for this crime was also enforced. There has been an increase in reports from banks, notaries, the Immovable Property Registration Office and the General-Directorate for Customs. The number of asset investigations, of cases sent to court for sequestration purposes and of seizures upon court order increased. However, the number of convictions for money-laundering remains significantly low compared with the scale of the problem. Money-laundering and corruption crimes do not fall under the competence of the Serious Crime Court.

Regarding the ASP's human resources, the diversity strategy continued being implemented. Some progress was made in recruitment of female police officers. However, there remains a need to comply fully with best practice regarding transfer, selection, appointment and promotion procedures. Internal control should be enforced in order to address corruption in law enforcement.

There has been some progress with international cooperation, notably through the installation of secure communication links with Europol, and information exchanges have continued. Operational cooperation with neighbouring countries, EU Member States and Europol needs to be further enhanced through the exchange of criminal intelligence and the carrying out of joint operations.

Albania has started implementing the national strategy and action plan on the **fight against terrorism**. Effective structures must be developed in order to guarantee timely and relevant security intelligence. Preparations in this area are moderately advanced.

There has been modest progress regarding **cooperation in the field of drugs**. Seizures and prosecution overall increased. The new national anti-drug strategy was adopted in June,

pursuing the objectives of increasing strategic coordination among law enforcement agencies, and addressing supply, demand and harm reduction. International cooperation is being ensured and the intelligence-led approach, as well as an increased use of risk assessment, should be continued involving all relevant institutions. Good cooperation was established between the European Monitoring Centre for Drugs and Drug Addiction and the National Office of Drugs Data set up in 2011. Police operations against cultivation of cannabis have been stepped up. Progress in seizures at entry points will need to be intensified. Organised crime groups continue taking advantage of Albania's location as a transit country. More targeted and proactive investigations and operations remain necessary.

Some progress took place in the area of **customs cooperation**. Good border cooperation was noted between the customs authorities and the police in the fight against illegal trafficking of vehicles. This positive move should be supported by further development of intelligence in this area, *see Chapter 29 – Customs union*.

For details of measures against counterfeiting of the euro, *see Chapter 32 – Financial control*.

Conclusion

Albania has made some progress in the area of justice, freedom and security, particularly in border management, international cooperation in investigations and the fight against organised crime. Efforts need to be stepped up on coordination between law enforcement institutions and consolidating a track record of investigations, prosecutions and convictions. Overall, preparations in this field are advancing.

4.25. Chapter 25: Science and research

There has been limited progress in **research and innovation policy**. The Agency for Research, Technology and Innovation (ARTI) has strengthened its administrative capacity and continued its efforts to promote cooperation on research and innovation under the Seventh EU Framework Programme through its website and awareness-raising activities. No progress was made towards integration into the European Research Area and contribution to the Innovation Union was limited. The national level of investment in research and technological development is still very low and has not increased since 2010, despite the targets set in the national strategy for science, technology and innovation for 2009-2015.

With respect to Albania's participation in the EU's Seventh **Framework Programme** (FP7), the number of submissions increased, but the number of successful FP7 projects funded is still very low. ARTI stepped up its promotion efforts and training sessions, attended several EU networking events and actively followed the work on the WBC.INCO.NET project under FP7. ARTI has signed bilateral cooperation agreements with Italy, Greece, Montenegro, the former Yugoslav Republic of Macedonia, Slovenia and Turkey.

As regards integration into the **European Research Area** (ERA), there has been little progress on implementation of the national strategy on science, technology and innovation. Some measures have been taken to strengthen human capital-building, such as increasing the Fund for Excellence stimulating external mobility, establishing the national Euraxess Portal (ARTI) and starting to set up a network. No progress was made on establishing centres of excellence. There was no increase in the level of investment in research and no action to stimulate investment in research and innovation by the private sector or to support private-public partnerships. In addition, the level of investment in research as a share of GDP is difficult to establish due to the lack of reliable statistics. The national funding for research has not increased but the system has improved thanks to a new selection process for projects to be funded directly by the departments. However, no international peer review is being applied so

far. The Albanian Business Research and Innovation Centre (AIDA) started to stimulate innovation by entrepreneurs by granting technology audits to SMEs with innovative ideas. This action is in line with the EU Innovation Union flagship.

Conclusion

There was little progress in the area of science and research. Further efforts are required at national level to strengthen the research and innovation capacity and increase the country's competitiveness. The level of investment in research remains very low and the human capital-building requires strengthening. Overall, preparations are not very advanced.

4.26. Chapter 26: Education and culture

There has been good progress in the areas of **education, training and youth**. The Law on Pre-university Education was adopted in June 2012. Further training has been provided to build the capacity of teachers and to adapt training and educational provision to the labour market. The National Inspectorate for Pre-university Education has continued to carry out inspections applying new guidelines for the inspection and evaluation of kindergartens and schools. Progress was made in the fight against corruption in education via the progressive digitalisation of the State school-leaving examinations ('matura') and preparation of a national code of ethics for pre-university and university teachers.

Further efforts have been made to build up the capacity of the vocational education and training (VET) sector at secondary level. The capacity of the Ministry of Education and Science has been strengthened. Some curricula have been reformed to reflect the needs of the labour market better. Four VET schools were constructed.

A comprehensive reform of the higher education system, including financial aspects, is being prepared. A database has been set up to track student numbers and results. A university performance and ranking scheme is being examined. The Albanian Qualifications Framework (AQF) is being developed but further efforts are needed to develop qualifications, define competences and turn them into study programmes. The independence of the accreditation agency has improved and efforts have been made to evaluate higher education institutions. The licence of one private university has been partially suspended for non-compliance with the law. However, efforts need to continue as regards evaluation and inspection of all higher education institutions and programmes, especially those in private universities. Participation by Albanian universities in the Tempus programme improved substantially in the last call. Awareness raising activities for the Youth in Action programme were carried out. Participation of young people in the programme continuously increased. A new youth strategy is being developed.

In the area of **culture**, good progress can be reported. Albania has concluded a Memorandum of Understanding on the Culture programme and started to participate in 2012. Network and capacity-building for participation in the Europe for Citizens programme were developed, but participation remains limited. A new strategy on cultural heritage (2012-2020) is being prepared.

Conclusion

There was good progress in the fields of education and culture in aligning with European standards, particularly in the areas of higher education and in the development of VET. Further efforts are required to improve transparency in private higher education institutions. In 2012, Albania started to participate in the Culture programme. Overall, preparations are moderately advanced.

4.27. Chapter 27: Environment and climate change

As regards the **environment**, there has been some progress in the *horizontal legislation*. Cooperation with civil society and public access to information improved. However, the Laws on Environmental Impact Assessment and Environmental Permits are still not aligned with the *acquis* and include serious deviations such as the ‘silent consent’ concept. Adoption of the Law on Strategic Environmental Assessment is pending. Lack of implementation and enforcement of the legislation remains a concern. Relevant environmental impact assessments and public consultations are not systematically carried out and environmental permits are not systematically issued before launching infrastructure projects. Sanctions are not dissuasive enough and not properly enforced.

As regards *air quality*, some progress was made with ratification of certain protocols to the Convention on Long-Range Transboundary Air Pollution. Air quality monitoring and reporting improved slightly. A new Air Protection Law, setting out a comprehensive framework for air quality policy, is pending. Air management plans for the main municipalities, including Tirana, are still pending. Due to the low budget allocated to this sector, only two air quality stations are fully operational.

Some progress was made on *waste management*, with adoption of the Law on Integrated Waste Management. Implementation of the law will have to be carefully monitored to guarantee that waste is managed and imported legally. Adoption of the regional waste management plans is still pending. Medical and veterinary waste treatment is not properly managed. Municipalities are facing difficulties in managing the growing volume of waste. There is still no procedure for management and control of the landfills in place and several uncontrolled dumpsites are still in use.

Little progress has been achieved on *water quality*. The National Water Supply and the Sewerage Services Sector Strategies were adopted and the Water Supply and Sewerage Master Plan was developed. Adoption of the Water Law is pending. Three wastewater treatment plants are now operational while four more have been completed but are not yet in operation. There is little capacity to assess the quality of water or of waste water discharged by industrial plants. In this respect, there was no progress on identifying sensitive areas. Development of river basin management plans, including at regional level, is still at an early stage.

Little progress can be reported in the field of *nature protection*. Proposed candidate sites in Albania for the Emerald Network were accepted by the Berne Convention in December 2011. Rules for establishment of special protection zones in the NATURA 2000 network were adopted. One new protected area was designated in 2011, increasing the proportion of the total national territory protected from 13.7% to 15.1%. Two new management plans have been developed for the Prespa and Shkodra national parks. However, budget and human resources are insufficient to protect and manage these areas properly. Enforcement of the legislation remains weak. Hunting permit control has not improved and cases of illegal hunting have been reported. Preparatory work has started for approximation with and implementation of the EU nature legislation and for establishment of the NATURA 2000 network.

There was no progress in the area of *industrial pollution control and risk management*.

There is no progress to report in the *chemicals, noise and civil protection* sectors.

Regarding **climate change**, Albania has made no progress on general policy development. A comprehensive climate strategy remains to be developed. Climate considerations are being

increasingly integrated in the energy policy, but substantial efforts are required in order to fully integrate climate change into all relevant sectoral policies and strategies.

Albania regularly associated itself with EU positions in the international context. However, while having associated itself to the Copenhagen accord, the country did not put forward yet a mitigation commitment by 2020. Albania should consider taking mitigation commitments consistent with those of the EU and its member states for the purpose the post-2020 climate agreement to be reached by 2015.

As regards alignment with the climate *acquis*, no significant progress was made. Albania remains at a very early stage. Some initial steps were taken to identify stationary installation for the purpose of future implementation of an Emissions Trading System. Significant efforts are required to strengthen the country's monitoring, reporting, and verification capacities. The limited administrative capacity and the weak inter-institutional cooperation are delaying the preparation and implementation of a climate policy in line with the *acquis*. The administrative structure on climate change requires considerable strengthening in order to address the significant capacity, cooperation and coordination needs.

Albania participated regularly in the climate component of the Regional Environmental Network for accession (RENA). A successful high level conference was organised in June 2012 under the RENA on EU-Albania climate cooperation. Efforts need to continue on awareness raising at all levels and promoting cooperation between all relevant stakeholders.

As regards **administrative capacity** in the environment sector, the number of staff was increased in the Ministry of Environment, the inspectorates and the river basin agencies. Some progress can be reported on strengthening the judiciary, particularly on training judges and prosecutors on environmental issues. However, the Ministry of Environment still lacks financial and human resources. The cooperation and coordination with the Ministry of Public Works needs to be improved. Also, the capacity of the Ministry of Public Works to design and manage water and waste management infrastructure projects is weak. Insufficient resources are allocated to ensure sustainability of such projects. The Environment Agency needs extensive investment in equipment and training to manage issues such as permit applications, permit monitoring, environmental monitoring and sampling and legislative enforcement. The National Environment Inspectorate is understaffed. Local authorities have limited budgets and scarce administrative tools to develop the infrastructure and services required. Coordination within the central government and between state and local authorities is weak. The Environmental Fund has not yet been created.

Conclusion

While there has been some progress in alignment with *acquis* in the field of environment, there was very little progress in the field of climate change. Efforts are urgently needed to align, implement and enforce legislation. Public awareness and consultation on legislative initiatives or public investments remain weak. There is a need for greater political commitment and coordinated action in these sectors. Substantial investment is needed while current resources allocated remain limited. Environment needs to be better integrated into other policy areas, such as energy or transport. Concerning climate change, substantial efforts are required on awareness-raising, setting a more strategic approach for the country, aligning with and implementing the *acquis*, as well as strengthening administrative capacities and inter-institutional cooperation. Preparations in the area of the environment are still at an early stage, whereas preparations in the area of climate change remain at a very early stage.

4.28. Chapter 28: Consumer and health protection

There has been some progress in **consumer protection**.

With regard to *horizontal aspects*, the new consumer protection strategy is being finalised. Some progress was made on strengthening the administrative capacity of the Consumer Protection Unit (CPU) which serves as a secretariat for the Consumer Protection Commission (CPC). The number of staff was increased and its political independence was strengthened. As regards enforcement of legislation, the CPC has been assessing potential infringements in areas such as telecommunications, public and private higher education and electricity and has taken some administrative measures. Both the CPC and the CPU have continued awareness-raising activities. Since April 2011, consumers can use an online complaint handling system managed by the CPC Secretariat.

Some progress has been made on *product safety-related issues*. The Law on General Safety of Non-Food Products, aiming at alignment with the *acquis*, was adopted. However, a market surveillance system is not yet in place. Some progress can be reported with *non-safety-related issues*. Implementing legislation, aiming at alignment with the *acquis*, was adopted on distance marketing of financial services.

There has been little progress in the area of **public health**. The Institute for Public Health has been reorganised. New infrastructure for primary healthcare services has been established. A training system has been set up, but does not include EU health legislation yet. In January 2011, the government adopted a decision reforming hospital services financing but implementation remains slow. A feasibility study on e-health was completed. The national electronic health strategy is pending.

Little progress has been made in the area of *tobacco control*. The tobacco advertising ban was applied and a plan for introducing pictorial warnings on tobacco packets has been prepared. The task force for protection of health from tobacco and alcohol use by minors increased its number of inspections and the level of fine collection in Tirana. The State Sanitary Inspectorate continued to perform inspections in the rest of the country. However, the fine collection rate remains low and tobacco products continue to be sold on the streets, notably by minors. Overall, the Law on Health Protection from Tobacco Products has not been sufficiently implemented.

Some progress has been made in the area of *communicable diseases*. A gap analysis is being conducted on communicable diseases legislation in order to compare Albania's legislation with the *acquis*. At national level, immunisation coverage for 2011 was about 95%. Preparations for implementation of a new modern vaccination system have continued. Guidelines on control of hospital infections were adopted in April 2012. HIV/AIDS prevention by means of the Global Fund grant (2007-2012) has mainly targeted Roma. Awareness-raising activities have taken place. Preparations for implementation of the International Health Regulations continued. The regional development centre was established within the Department of Infectious Diseases at the Institute of Public Health but lacks sufficient financial and human resources. Adoption of the implementing legislation ensuring the right to health for persons and children living with HIV/AIDS and people at risk is still pending.

No progress can be reported in the areas of *blood, tissues, cells and organs* and *patients' rights in cross-border healthcare*.

Some progress can be reported in the area of *mental health*. The Law on Mental Health was adopted in June 2012. Training of general practitioners on mental health actively continued. A ten-year mental health strategy and action plan for the development of mental health services are awaiting adoption. There is an urgent need to establish a sustainable mental health services system, based on adequate funding, a well-trained mental health workforce and accessibility for all minorities and socially vulnerable groups, including in rural areas. In

addition, there is a significant lack of doctors specialising in treating persons with intellectual disabilities. More community-based mental health services of high quality focusing on recovery should be established as an alternative to institutional care.

Some progress can be reported in *drug abuse prevention*. The new 2012-2016 national drug control strategy was adopted in June 2012. The National Information Centre for Drugs has been set up as a unit of the Department of Epidemiology and Health Systems in the Institute of Public Health. In March 2012, the Drug Dependence Treatment Centre at the Mother Theresa Hospital in Tirana was opened as the first comprehensive drug treatment centre in Albania.

There has been little progress on reducing *health inequalities*. In December 2011, a circular from the Ministry of Health was issued to include on birth certificates the ID number and maiden name of the mother in order to avoid false/wrong declarations at maternity hospitals, and prevent non-registration of children, particularly from the Roma community. A number of awareness-raising campaigns on healthcare and services were carried out for Roma, along with health screenings and vaccination campaigns. Further efforts are needed to make healthcare services and vaccination accessible for Roma and other vulnerable groups (especially young people with HIV/AIDS and young drug users) across the whole country, notably in rural areas.

Progress has been made towards reducing *alcohol-related harm* by assessing use of alcohol and other substances among students and making available tools for screening substance use among adults. There has been some progress in the field of *cancer screening*, in particular for breast cancer. The national strategy for cancer control (2011-2020) was approved. However, further efforts are needed to implement screening programmes in line with the *acquis*.

Conclusion

There has been some progress in the areas of consumer and health protection. However, implementation and enforcement of the legislation remain very weak. The market surveillance system is not yet in place. Low awareness in the health protection system, both amongst professionals and the public, is hampering transparency and enforcement. The health sector remains under-financed. Overall, preparations are not very advanced.

4.29. Chapter 29: Customs Union

There has been progress in the **customs legislation**. Legislation was adopted with a view to accession to the Regional Convention on Pan-Euro-Med preferential rules of origin, to the International Kyoto Convention on Simplification and Harmonisation of Customs Procedures and to the Harmonised System Convention. In August Albania was granted informal observer status at the EU/EFTA Joint Committees on Common Transit and Simplification of Formalities and Related Groups. Albania stated that it had decided to join the Common Transit Convention. Yet, the ATA Convention on Temporary Importation has still not been implemented. The Directorate for Intellectual Property Rights in the Customs Administration approved a manual for lodging actions against counterfeit products, statistics were introduced and guidelines with related standard forms were published. Albania updated its customs tariff in line with the 2012 version of the EU Combined Nomenclature. Secondary legislation was approximated to the *acquis* by abolishing administrative fees for customs warehouses and temporary storage. Yet, the new draft Customs Code and its implementing provisions, which aim at further approximation to the *acquis*, are still awaiting adoption. The rate of use of transaction value remains low by EU standards.

Declaration of casual imports by travellers and of goods of a non-commercial nature sent by mail was simplified and authorisations for free warehouses for energy products were issued.

However, progress on use of simplified procedures and trade facilitation remains limited. Further efforts are required in this area, including on development of the concept of 'authorised economic operator' and on awareness-raising for customs officers and the business community.

Some progress was made in **administrative and operational capacity**. A Memorandum of Understanding for Albania's participation in the EU Customs 2013 programme was signed in July. Digital video monitoring is operational in most customs houses. A module was added to the IT system (Asycuda) to cover movements of excise products and to include the application for fiscal warehouses. Construction of an IT server room at the customs headquarters has been completed in accordance with the standards of the Telecommunications Industry Association. However, IT interconnectivity and interoperability with the EU systems require further efforts. The customs laboratory is not yet operational. Efforts are also still required to improve infrastructure at border crossing points. The number of physical controls decreased slightly thanks to improvements in the targeting process with the aid of risk profiles. No progress was made with systematic development of post-clearance controls.

An action plan on human resources and training was adopted for 2012 and the Business Strategy and the Business Change Management Plan for the Customs administration were approved in July. New departments on IT and Excise were introduced in the General Directorate of Customs (GDC). The organisation and structure of the Training Academy was approved but the Academy is still not operational. Some measures have been taken to address corruption in the Customs administration. An internal regulation for the Directorate for Internal Investigations and Anti-corruption of the DGC was adopted. A toll-free number and a web link for reporting corruption were introduced and awareness-raising measures on the role of citizens in fighting corruption were organised. Cooperation with relevant institutions such as banks, the High Inspectorate of Declaration of Assets, the Immovable Property Registration Office and through the Joint Investigative Task Force, continued. However, further efforts are still necessary, as the perception of corruption in the customs administration remains high. Customs officials have not yet been granted civil servant status.

Conclusion

There was progress in legislative approximation in the field of the Customs Union. Shortcomings remain in the overall administrative and operational capacity, including the compatibility of IT systems with EU requirements. Further efforts are required on customs valuation and trade facilitation. Overall, preparations are moderately advanced.

4.30. Chapter 30: External relations

In the area of the **common commercial policy**, moderate progress has been made.

Albania has generally continued to coordinate with the European Commission and to align with the policies and positions of the European Union towards third countries in international organisations, in particular the World Trade Organisation.

There has been limited progress as regards administrative capacity for trade policy. The Directorate for Trade and Integration Policies organised training activities for its staff and staff of line ministries on various aspects of trade and services. There was no progress on adoption and implementation of the overall training plan on trade policies and on the EU common commercial policy.

There was some progress in the field of dual-use goods. In December 2011 the General-Directorate for Customs (GDC) and the State Export Control Agency (SECA) concluded a Memorandum of Understanding on cooperation in the field of military and dual-use goods and technology controls. Continuous contacts at expert and managerial levels are in place

between the GDC and the SECA. The specific military and dual-use goods risk profile was updated in December 2011. Training on controls for dual-use goods, risk analyses and post-clearance were organised for field customs officers.

Regarding conclusion and implementation of **bilateral agreements with third countries**, Albania has started to implement the Additional Protocol for the liberalisation of trade in agriculture in the CEFTA framework. Bilateral investment treaties were signed with Azerbaijan and Qatar.

Little progress can be reported in **development policy** and **humanitarian aid**. The Ministry of Foreign Affairs assigned one person to follow issues related to EU development policy and humanitarian aid.

Conclusion

Albania has continued its good cooperation within the WTO and CEFTA. However, limited progress was made with strengthening the administrative capacity of the institutions involved in trade policy. Overall, preparations in the area of external relations are moderate.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and Albania on foreign security policy issues continued. (*Concerning relations with other enlargement countries and Member States, see Political criteria 2.3 – Regional issues and international obligations.*)

As regards the **common foreign and security policy (CFSP)**, during the reporting period Albania aligned itself, when invited, with all 70 EU declarations and Council decisions (100% alignment). (*As regards the International Criminal Court, see Political criteria 2.3 – Regional issues and international obligations.*)

Albania implemented the EU's *restrictive measures* applied to third countries, introduced by Council Decisions.

No additional developments can be reported concerning *conflict prevention*.

In the field of *non-proliferation*, Albania has continued implementing the action plan for the destruction of surplus weaponry and has aligned its positions with the EU and other international organisations. As regards small arms and light weapons, no progress can be reported on finalisation of the online register of weapons and ammunition under the management of the State Police.

The country has engaged actively in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.). Since 23 May, Albania holds the rotating chairmanship of the Committee of Ministers of the Council of Europe.

On *security measures*, the security agreement with the EU on exchanges and mutual protection of classified information is still pending.

Albania has demonstrated a growing commitment to participate in *civil and military crisis management* operations under the **common security and defence policy (CSDP)**. Albania signed, in June, the Framework Agreement on participation in EU crisis management operations and has continued to take part in the EUFOR Althea mission in Bosnia and Herzegovina (one general staff member and a five-person explosive and ordinance disposal team). During the reporting period, Albania deployed a contingent of five police officers to Afghanistan to work as trainers as part of the EUPOL mission supporting the rule of law. Albania has contributed two naval officers to the EU NAVFOR Atalanta operation in Somalia. Albania has also cooperated with NATO in the Libya operation.

Conclusion

Albania continued to align with the *acquis* in the field of foreign, security and defence policy and has shown continued political commitment to participate in civil and military crisis management operations. Further efforts are required to complete the online register of weapons and ammunition under the management of the State Police. Overall, preparations in this field remain on track.

4.32. Chapter 32: Financial control

Some progress can be reported in the area of **public internal financial control** (PIFC). The Public Financial Inspection Directorate (PFID) has been set up within the Ministry of Finance but still needs to be fully staffed. Recruitment of budget inspectors across administration has been completed. Training is on-going. This should contribute to separating internal audit and inspection and clarifying the role of internal audit as support for management. However, while the primary legal framework for centralised budget inspection is in place, implementing legislation on procedures to conduct financial inspections is still being prepared.

With regard to financial management and control (FMC), there is a need to rethink the FMC arrangements within line ministries to avoid the present conflicts between the Organic Budget Law, the FMC Law and the Government Decision on Standards and Procedures for the Internal Organisation of Public Administration Institutions. Further training on the full implications of introduction of the FMC Law is necessary. With regard to internal audit, a decision by the Council of Ministers on the criteria for establishing internal audit units in public entities was adopted in April 2012. The Central Harmonisation Unit for Internal Audit has started to review the training programme for internal auditors. Overall, the quality of internal audits still needs to be improved.

There has been progress in the area of **external audit**. A new Chairman of the Supreme State Audit Institution (SAI) was appointed by Parliament in December 2011. After some years of standstill, the draft amendments to the Law on the SAI to bring it fully in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI) have been prepared and have been submitted to the adoption procedure. The SAI conducts all the main types of audits but inspection-type regularity/compliance audits still make up the vast majority of its audits (around 90% in 2011). Training of SAI auditors during 2011 has been limited. Whereas there is evidence of greater acceptance of SAI's recommendations by auditees, the efficiency of the parliamentary follow-up to SAI's audit reports has to be improved.

There has been little progress on **protection of the EU's financial interests**. Recruitment of staff for the PFID, which serves as a contact point for the European Commission and its European Anti-Fraud Office (OLAF), is on-going. However, administrative capacity in this area needs to be built up.

Little progress can be reported with **protection of the euro against counterfeiting**. Albania continues to participate actively in the Pericles programme. Following the decision by the Supervisory Council of the Bank of Albania to establish the National Analysis Centre, an expert in examining and investigating counterfeit banknotes was recruited in February 2012.

Conclusion

There was limited progress in the area of financial control. Substantial efforts are still required to address existing shortcomings in implementation of the PIFC legal framework, introduction of the managerial accountability principle and alignment of external audit to INTOSAI standards. Overall, preparations are still not very advanced.

4.33. Chapter 33: Financial and budgetary provisions

There have been no major developments as regards **traditional own resources**, **VAT resources** and **GNI resources**. For progress on the underlying policy areas, *see Chapters 16 – Taxation, 18 – Statistics, 29 – Customs Union and 32 – Financial control*.

Albania already has in place the main **administrative infrastructure** for the underlying policy areas indirectly affecting the own resources system. The institutions and coordinating bodies in charge of preparing the administrative conditions to apply the own resources rules will need to be designated in due course.

In addition, effective tools to fight against tax evasion and fraud and to decrease the informal economy are to be further developed.

Conclusion

There has been no particular progress in the rules on administration of own resources system itself, including GNI, VAT and traditional own resources. Overall, preparations for financial and budgetary provisions are at an early stage.

Statistical Annex

STATISTICAL DATA

Albania

Basic data	Note	2001	2007	2008	2009	2010	2011
Population (thousand)	8)	3 063	3 153	3 170	3 185	:	2 832p
Total area of the country (km ²)		28 750	28 750	28 750	28 750	28 750	28 750
National accounts	Note	2001	2007	2008	2009	2010	2011
Gross domestic product (GDP) (million national currency)		583 369	967 670	1 089 293	1 148 082	1 222 462	1 279 773
GDP (million euro)		4 541	7 828	8 870	8 693p	8 872p	:
GDP (euro per capita)		1 482	2 483	2 798	2 737p	3 080pb	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	5 800	6 500	6 500	7 339pb	:
GDP per capita in PPS (EU-27 = 100)		:	23	26	28	30pb	:
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		7.9	5.9	7.5	3.3e	3.7ep	3.0p
Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		30.3	-9.4	19.0	4.4	:	:
Real unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors (%)							
Agriculture and fisheries	1)	23.6	19.0	18.7	18.7	19.3	:
Industry	1)	7.3	9.4	9.8	10.1	11.7	:
Construction	1)	10.4	14.8	14.9	14.2	11.0	:
Services	1)	58.6	56.8	56.6	57.0	58.0	:
Final consumption expenditure, as a share of GDP (%)		80.9	90.4	89.5ep	:	:	:
Gross fixed capital formation, as a share of GDP (%)		38.4	38.7	40.9ep	39.2ep	37.0ep	:
Changes in inventories, as a share of GDP (%)		1.3	-2.4	-3.8ep	:	:	:
Exports of goods and services, relative to GDP (%)		18.4	28.1	29.4e	29.0p	32.9p	34.6p
Imports of goods and services, relative to GDP (%)		39.0	54.8	56.0e	53.5p	53.7p	57.7p
Industry	Note	2001	2007	2008	2009	2010	2011
Industrial production volume index (2005=100)		:	90.8	117.9	116.5	139.6	121.1
Inflation rate	Note	2001	2007	2008	2009	2010	2011
Annual average inflation rate (CPI, % change on previous year)		3.5	3.1	2.2	2.3	3.6	3.4
Balance of payments	Note	2001	2007	2008	2009	2010	2011
Balance of payments: current account total (million euro)		-316	-831	-1 370	-1 346	-1 056	:
Balance of payments current account: trade balance (million euro)		-1 149	-2 104	-2 431	-2 304	-2 083	:
Balance of payments current account: net services (million euro)		100	13	69	121	182	:
Balance of payments current account: net income (million euro)		150	217	55	-101	-77	:
Balance of payments current account: net current transfers (million euro)		583	1 043	937	938	922	:
of which government transfers (million euro)		31	60	31	27	45	:
Net foreign direct investment (FDI) (million euro)		231	492	731	732	837	:
Foreign direct investment (FDI) abroad (million euro)		0	-11	-55	-26	-10	:
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)		231	481	675	706	827	:
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	:	:	:
Public finance	Note	2001	2007	2008	2009	2010	2011
General government deficit/surplus, relative to GDP (%)		-6.9	-3.5	-5.5	-7.0	-2.9	-3.5
General government debt relative to GDP (%)		58.5	54.8	53.8	59.5	58.5	58.9
Financial indicators	Note	2001	2007	2008	2009	2010	2011
Gross foreign debt of the whole economy, relative to GDP (%)		17.2	16.6	17.1	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)	2)	93.1	95.0	118.0	134.0	128.0	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		1 113	1 963	2 303	2 154	1 999	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		2 376	4 094	4 520	4 378	4 387	:
Money supply: M3 (M2 plus marketable instruments, million euro)		3 069	6 129	6 643	6 599	7 114	:

Total credit by monetary financial institutions to residents (consolidated) (million euro)		217	2 377	3 227	3 335	3 506	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	3)	11.9	11.7	11.8	12.5	11.3	:
Deposit interest rate (one year), per annum (%)	4)	7.8	5.7	6.9	6.8	6.4	:
Euro exchange rates: average of period - 1 euro = ... national currency		128.470	123.620	122.800	132.060	137.790	:
Effective exchange rate index (2005=100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		834	1 477	1 694	1 650	1 904	:

External trade	Note	2001	2007	2008	2009	2010	2011
Value of imports: all goods, all partners (million euro)		1480.2	3043.6	3582.1	3247.4	3467.4	3876.3
Value of exports: all goods, all partners (million euro)		343.2	786.2	916.7	791.4	1172.4	1403.0
Trade balance: all goods, all partners (million euro)		-1136.9	-2257.5	-2665.4	-2455.9	-2294.9	-2473.3
Terms of trade (export price index / import price index)		101.5	98.1	96.0	97.6	98.4	108.3
Share of exports to EU-27 countries in value of total exports (%)		91.1	83.1	79.7	77.4	70.1	72.7
Share of imports from EU-27 countries in value of total imports (%)		81.0	59.7	60.7	64.3	64.5	63.9

Demography	Note	2001	2007	2008	2009	2010	2011
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		12.5	5.9	6.3	:	:	4.6p
Infant mortality rate: deaths of children under one year of age per 1000 live births		10.8	6.2	6.0	:	:	:
Life expectancy at birth: male (years)		:	:	:	:	:	:
Life expectancy at birth: female (years)		:	:	:	:	:	:

Labour market	Note	2001	2007	2008	2009	2010	2011
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	72.2	69.3	69.6	:	:
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	62.7	60.8	60.4	:	:
Employment rate male (20-64) (%)		:	71.4	72.1	73.2	:	:
Employment rate female (20-64) (%)		:	54.2	51.0	48.9	:	:
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		:	46.6	44.0	48.9	:	:
Employment by main sectors (%)							
Agriculture	1) 5)	57.7	47.9	44.6	44.1	:	:
Industry	1)	7.7	10.4	9.3	10.0	:	:
Construction	1)	6.1	8.2	8.5	9.9	:	:
Services	1) 5)	28.5b	33.5	37.6	36.0	:	:
Unemployment rate: share of labour force that is unemployed (%)	6)	16.4	13.5b	13.0	13.8	:	:
Share of male labour force that is unemployed (%)	6)	14.2	14.4b	12.5	12.2	:	:
Share of female labour force that is unemployed (%)	6)	19.9	12.2b	13.5	15.9	:	:
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)	6)	:	20.1b	27.2	27.2	:	:
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)	6)	:	9.4b	8.5	9.1	:	:

Social cohesion	Note	2001	2007	2008	2009	2010	2011
Average nominal monthly wages and salaries (national currency)		17 218	33 750.0	36 537.0	40 874.0	44 375.0	46 665.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)		11.6	83.1	91.7	109.8	116.1	123.5
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	42.0	39.0	35.0	:	:

Standard of living	Note	2001	2007	2008	2009	2010	2011
Number of passenger cars per 1000 population		43.6	75.2	83.3	88.2	:	106.3p
Number of subscriptions to cellular mobile telephone services per 1000 population		120.8	736.5	935.3	1 314.1	:	:

Infrastructure	Note	2001	2007	2008	2009	2010	2011
Density of railway network (lines in operation, per 1000 km ²)		14.3	13.9	13.9	13.9	13.9	13.9
Length of motorways (km)		:	:	:	:	:	:

Innovation and research	Note	2001	2007	2008	2009	2010	2011
Spending on human resources (public expenditure on education in % of GDP)		3.3	3.2	3.5	3.4	:	:
* Gross domestic expenditure on R&D in % of GDP		:	:	:	:	:	:
Percentage of households who have Internet access at home (%)		:	:	3.4	:	:	:

Environment	Note	2001	2007	2008	2009	2010	2011
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		386.5	306.6	:	:	:	:
Electricity generated from renewable sources in % of gross electricity consumption		:	:	:	:	:	:
Road share of inland freight transport (% of tonne-km)		:	:	:	:	:	:

Energy	Note	2001	2007	2008	2009	2010	2011
Primary production of all energy products (thousand TOE)		933	1 080	1 159	1 263	1 643	1 494
Primary production of crude oil (thousand TOE)		335	564	578	577	744	895
Primary production of hard coal and lignite (thousand TOE)		15	15	20	3	3	2
Primary production of natural gas (thousand TOE)		8	16	8	8	13	15
Net imports of all energy products (thousand TOE)		1 001	1 020	1 033	1 299	1 306	1 456
Gross inland energy consumption (thousand TOE)		1 934	2 130	2 119	2 104	2 106	2 162
Electricity generation (thousand GWh)		3.7	3.0	3.9	5.2	7.7	4.1

Agriculture	Note	2001	2007	2008	2009	2010	2011
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	100.4	107.4	102.0	107.3	:
Total utilised agricultural area (thousand hectare)		1 139	1 121	1 146	1 164	1 201	1201
Livestock: cattle (thousand heads, end of period)		708	577	541	494	493	492
Livestock: pigs (thousand heads, end of period)		106	147	161	160	164	163
Livestock: sheep and goats (thousand heads, end of period)		2 933	2 729	2 620	2 540	2 581	2 517
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		984	1 016	1 040	1 045	1 070	1 101
Crop production: cereals (including rice) (thousand tonnes, harvested production)		503	494	608	630	662	701
Crop production: sugar beet (thousand tonnes, harvested production)		39	-	-	-	-	-
Crop production: vegetables (thousand tonnes, harvested production)	7)	677	672	715	730	860	890

: = not available

- = not applicable

p = provisional

e = estimated value

b = break in series

* = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

Footnotes:

1) Data according to NACE Rev 1.1.

2) 2000 - 2003, Debt Outstanding Disbursed (DOD) cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credit. Total exports are calculated according national accounts concepts; data on GED from 2003 are disseminated by Bank of Albania.

3) Average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.

4) Deposit interest rate represents the average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.

5) Break in series due to the change of data source: 2001 - 2006, administrative data (information only for the male population aged 15-59 and for the female population aged 15-54), from 2007 onwards, Labour Force Survey data.

6) 2000 - 2006, administrative data; from 2007 onwards, Labour Force Survey data.

7) Including melons.

8) The 2011 population data are provisional figures from the 2011 census of population and housing. The estimates for previous years have not been adjusted to be in line with the new census results.